Office of Management and Budget

North American Industry Classification System—Update for 2007; Notice
OFFICE OF MANAGEMENT AND BUDGET

North American Industry Classification System—Update for 2007

AGENCY: Office of Management and Budget, Executive Office of the President.

ACTION: Notice of solicitation of comments on the Economic Classification Policy Committee’s recommendations for the 2007 revision of the North American Industry Classification System.

SUMMARY: Under Title 44 U.S.C. 3504(e), the Office of Management and Budget (OMB) seeks public comment on the advisability of adopting the proposed North American Industry Classification System (NAICS) updates for 2007. NAICS is a system for classifying establishments (individual business locations) by type of economic activity. Mexico’s Instituto Nacional de Estadística, Geografía e Informática (INEGI), Statistics Canada, and the United States Office of Management and Budget, through its Economic Classification Policy Committee (ECPC), collaborated on NAICS to make the industry statistics produced by the three countries comparable. OMB’s Economic Classification Policy Committee recommends an update of the industry classification system to clarify existing industry definitions and content, recognize new and emerging industries, and correct errors and omissions.

This notice: (1) Summarizes the background for the proposed revisions to NAICS 2002 in Part I, (2) contains a summary of public comments in Part II, (3) details multiple requests and major changes in the proposed structure agreed to by the three countries in Part III, and (4) provides a comprehensive listing of proposed changes for national industries and their links to NAICS 2002 industries in Part IV.

OMB published a notification of intention to revise portions of NAICS in a December 27, 2002, Federal Register notice (67 FR 79500–79506). That notice solicited comments on the advisability of revising maximum possible public input, OMB seeks comment on the advisability of revising the NAICS 2002 structure for 2007 to account for new and emerging industries and solicited comments on the advisability of making changes to improve international comparability, and other changes identified as necessary during the initial implementation of NAICS 2002. The deadline for submitting comments was March 28, 2003.

After considering all proposals from the public, consulting with U.S. data users and industry groups, and undertaking extensive discussions with Statistics Canada and Mexico’s INEGI, the ECPC in collaboration with INEGI and Statistics Canada developed recommendations for revisions to NAICS that would apply to all three North American countries. These revisions focus on improving the description of current industries, identifying new and emerging industries, and recommending changes to industry content based on research and implementation experience. There are no changes specifically recommended to increase international comparability.

The ECPC recommends that NAICS United States 2007 incorporate changes as shown in Parts III and IV of this notice.

Following an extensive process of development and discussions by the ECPC, with maximum possible public input, OMB seeks comment on the advisability of revising NAICS to incorporate the changes published in this notice. The modified NAICS would be employed in relevant data collections by all U.S. statistical agencies beginning with the reference year 2007. Statistics Canada and INEGI are recommending acceptance of the proposed revisions of the NAICS system for industry classification in the statistical programs of their national systems and are seeking comments in their respective countries. Representatives of the three countries will hold further discussions to consider public comments that they receive.

DATES: To ensure consideration of comments on the adoption and implementation of the NAICS revisions detailed in this notice, comments must be in writing. Please submit comments as soon as possible, but no later than June 9, 2005. Please be aware of delays in mail processing at Federal facilities due to heightened security. Respondents are encouraged to send both a hard copy and a second copy via fax or e-mail. This proposed revision to NAICS would become effective in the U.S. for publication of establishment data that refer to periods beginning on or after January 1, 2007.

ADDRESSES: Please send correspondence about the adoption and implementation of proposed NAICS revisions as shown in this Federal Register notice to: Katherine K. Wallman, Chief Statistician, Office of Management and Budget, 10201 New Executive Office Building, Washington, DC 20503, telephone number: (202) 395–3093, fax number: (202) 395–7245. Please send E-mail comments to naics@omb.eop.gov with subject NAICS07. OMB will include in the official record all comments received via facsimile or via e-mail, at this address with this subject, by the date specified above.

Please address inquiries about the content of industries or requests for electronic copies of the tables to: John Murphy, Chair, Economic Classification Policy Committee, Bureau of the Census, Room 2641–3, Washington, DC 20233, telephone number: (301) 763–5172, fax number: (301) 457–1343, e-mail: John.Burns.Murphy@census.gov.

Electronic Availability and Comments: This document is available on the Internet from the Census Bureau Internet site via WWW browser. To obtain this document via WWW browser, connect to http://www.census.gov/naics. This WWW page also contains links to previous NAICS Federal Register notices and related documents.

FOR FURTHER INFORMATION CONTACT: Paul Bugg, 10201 New Executive Office Building, Washington, DC 20503, e-mail address: pbugg@omb.eop.gov, telephone number: (202) 395–3095, fax number: (202) 395–7245.

SUPPLEMENTARY INFORMATION:

Part I: Background of NAICS

NAICS is a system for classifying establishments (individual business locations) by type of economic activity. Its purposes are: (1) To facilitate the collection, tabulation, presentation, and analysis of data relating to establishments, and (2) to promote uniformity and comparability in the presentation and analysis of statistical data describing the North American economy. NAICS is used by Federal statistical agencies that collect or publish data by industry. It is also widely used by State agencies, trade associations, private businesses, and other organizations.

Mexico’s Instituto Nacional de Estadísticas, Geografía e Informática, Statistics Canada, and the United States Office of Management and Budget, through its Economic Classification Policy Committee, collaborated on NAICS to make the industry statistics produced by the three countries comparable. NAICS is the first industry classification system developed in accordance with a single principle of aggregation, the principle that producing units that use similar technology and in the growth and
diversification of services that have marked recent decades. Industry statistics presented using NAICS are comparable, to a limited extent, with statistics compiled according to the latest revision of the United Nations’ International Standard Industrial Classification (ISIC, Revision 3.1).

For the three countries, NAICS provides a consistent framework for the collection, tabulation, presentation, and analysis of industry statistics used by government policy analysts, by academics and researchers, by the business community, and by the public. However, because of different national economic and institutional structures as well as limited resources and time for constructing NAICS, its structure was not made entirely comparable at the individual industry level across all three countries. For some sectors and subsectors, the statistical agencies of the three countries agreed to harmonize NAICS based on sectoral boundaries rather than on a detailed industry structure. NAICS comparability is limited to the sector level for wholesale trade, retail trade, and public administration.

The four principles of NAICS are:

1. NAICS is erected on a production-oriented conceptual framework. This means that producing units that use the same or similar production processes are grouped together in NAICS.

2. NAICS gives special attention to developing production-oriented classifications for (a) new and emerging industries, (b) service industries in general, and (c) industries engaged in the production of advanced technologies.

3. Time series continuity is maintained to the extent possible.

4. The system strives for compatibility with the two-digit level of the International Standard Industrial Classification of All Economic Activities (ISIC Rev. 3) of the United Nations.

The ECPC is committed to maintaining the principles of NAICS during revisions. The December 27, 2002, solicitation for public comment on questions related to a potential revision of NAICS in 2007 was directly tied to the application of the four NAICS principles.

NAICS uses a hierarchical structure to classify establishments from the broadest level to the most detailed level using the following format:

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Sector ..................... 2-digit ......................
Subsector ................... 3-digit ......................
Industry Group ............ 4-digit ......................
NAICS Industry ............. 5-digit ......................
National Industry .......... 6-digit ......................
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Sectors represent the highest level of aggregation. There are 20 sectors in NAICS representing broad levels of aggregation.

Subsectors represent the next, more detailed level of aggregation in NAICS. There are 100 subsectors in NAICS.

Industry groups are more detailed than subsectors. There are 317 industry groups in NAICS.

NAICS industries are the level that, in most cases, represents the lowest level of three country comparability. There are 725 five-digit industries in NAICS.

National industries are the most detailed level of NAICS. These industries represent the national level detail necessary for economic statistics in an industry classification. There are 1179 U.S. industries in NAICS United States, 2002.

Part II: Summary of Public Comments Regarding Priorities for Changes to NAICS in 2007

In response to the December 27, 2002, Federal Register notice, the ECPC received a total of 68 comments. Each submission was assigned a unique docket number. These 68 comments addressed the advisability of making changes based on the principles of NAICS and/or included comments proposing changes to the structure of NAICS 2002.

The ECPC received nine comments that addressed the issue of priorities for a potential revision of NAICS in 2007 based on the four principles. The ECPC recognized that the application of one principle, such as international comparability, could be at the expense of another principle, such as time series comparability. The ECPC sought public comment on the relative priority of each principle or a ranking of priorities for the principles. The response to the Federal Register notice was insufficient to reliably gauge the general public’s position on the priorities for a 2007 revision of NAICS. In the small number of comments received, the same items were listed as high priorities for some respondents and low priorities for others.

The ECPC recommends and has applied the following general guidance when considering changes to NAICS in 2007:

1. Because of the cost of change and disruption of statistical data that has already resulted from the ongoing implementation of NAICS, the ECPC will limit the scope of the changes for 2007 and recommend only essential changes to the system;

2. The ECPC will recommend new and emerging industries identified through public comment that are supported by the guiding principles of NAICS;

3. The ECPC will approach improvements in international comparability using a better concordance approach rather than making structural changes to NAICS to improve comparability; and

4. The ECPC will make changes to account for errors and omissions as well as recommending narrative improvements to clarify the content of existing industries.

The ECPC also relied on the policy direction of the Office of Management and Budget and the positions of the ECPC member agencies (Bureau of Economic Analysis, Bureau of Labor Statistics, and Bureau of the Census) when evaluating specific proposals for changes to NAICS in 2007. The ECPC reviewed each individual proposal within the existing framework of the principles of NAICS. Additional considerations that resulted in recommendations for or against change included issues of relevance, size, and time series continuity.

The ECPC received 60 comments that requested specific changes to NAICS industries for 2007. Twenty-two of those comments requested industries for biotechnology, three requested changes to the definition of optometrists, and three requested a new industry for design/build in the construction sector of NAICS. The balance of the comments addressed single issues, such as requests for new industries or clarifications for activities including wedding videography, rope and cordage manufacturing, simulation, e-learning, denturists, rental and leasing of recreational vehicles, physical therapy, travel goods wholesaling, and similar requests.

The ECPC received a number of comments that suggested changes to NAICS that were not accepted. Each of these suggestions was carefully considered. Some suggestions were modified by the ECPC to better meet the objectives of NAICS. Other suggestions proposed products (rather than industries); these will be considered in the North American Product Classification System (NAPCS), a new product classification system currently under development. Still other
suggestions for change could not be
justified on a production basis, or could
not be implemented in statistical
programs, for various reasons, and thus
were not accepted.

When a proposal was not accepted, it
was usually because: (a) The resulting
industry would have been too small in
the U.S.; (b) the specialization ratio of
the resulting industry, a measure of the
degree to which establishments in the
industry are similar to one another and
different from establishments in other
industries, was too low; or (c) the
proposal did not meet the production-
oriented criterion for forming an
industry in NAICS.

Part III: Recommendations on Specific
Requests for Change

The ECPC received 22 separate
responses requesting the creation of new
industries for medical biotechnology
products, food and agricultural
biotechnology products, and industrial
biotechnology products. The proposals
were assigned docket numbers: 07–
0013, 07–0014, 07–0015, 07–0016, 07–
0018, 07–0019, 07–0020, 07–0022, 07–
0023, 07–0024, 07–0025, 07–0026, 07–
0027, 07–0028, 07–0029, 07–0030, 07–
0031, 07–0036, 07–0037, 07–0041, 07–
0044, and 07–0049. The proposals did
not contain information regarding the
size of the potential industries,
importance of the industries in Canada
or Mexico, or any information regarding
the separate production function
justification for creating the new
industries. In order to evaluate the
proposals, the ECPC consulted with an
industry trade association to clarify the
requests for new industries.

The ECPC clarified the requests as
proposals to create industries for
establishments that use biotechnology
inputs, use biotechnology processes, or
produce biotechnology outputs. The
practical impact of these proposals
would be to group a number of
establishments that are currently
classified in the Agriculture, Forestry,
Fishing, and Hunting; Manufacturing;
and Professional, Scientific and
Technical Services sectors of NAICS.

The ECPC used the principles of
NAICS to evaluate these requests. The
ECPC recommends against creating the
three industries requested based on the
mixture of production processes that
would be involved. These activities are
currently classified throughout the
NAICS system. For example, growing
genetically-modified crops is in farming,
production of biotech enzymes is in the
chemicals subsector of NAICS, and
manufacturing of biotech inputs is
classified in food manufacturing. The ECPC considered
the production processes and
similarities to other production
processes already separately identified
in NAICS. Growing a genetically-
modified crop may require a different
production function from growing a
more traditional version of the crop
because of decreased need for pesticides
or other inputs. Nevertheless, the
production process is still closer to
other agriculture production processes
than it is to manufacturing production
processes or professional service
production processes. A similar
rationale applies to food manufacturing
production processes, pharmaceutical
manufacturing production processes,
and industrial manufacturing
production processes.

The ECPC recognized the importance
of biotechnology as an emerging
technology that should be accounted for
in NAICS. While recommending against
the proposals received in response to
the Federal Register notice, the ECPC
does recommend creation of a new six-
digit national industry for
Biotechnology Research and
Development. This industry will
contain units that are using
biotechnology processes to develop
general knowledge, new products, and
processes using biotechnology. The new
biotechnology research and
development industry is in conformance
with the principles of NAICS because:
(1) The new industry will group similar
establishments using biotechnology
processes in experimental research and
development; (2) the new industry
addresses a new and emerging activity
resulting in the production of advanced
technologies, and (3) the new industry
is expected to be comparable with a
biotechnology research and
development industry proposed in the
ongoing revision of the International
Standard Industrial Classification of All
Economic Activities of the United
Nations. In order to minimize time
series disruptions, the new industry for
Biotechnology Research and
Development can be added to the
revised industry for research and
developmental physical
engineering, and life sciences to create
a continuous time series for NAICS
United States 2002 industry 541710,
Research and Development in the
Physical, Engineering, and Life
Sciences.

The ECPC also reviewed the results of
a biotechnology use survey conducted
by the Department of Commerce and
reviewed preliminary survey results
regarding biotechnology research and
development from the 2002 Economic
Census. Both sources indicate that the
proposed industry will be supportive
in collection and publication. The ECPC
recommends that public commenters on
this issue work with statistical data
collection programs in order to ensure
that adequate biotechnology product
detail is included in future data
collection efforts.

Three public comments requested
to the definition of optometrist
used in the NAICS United States 2002
manual. These proposals were assigned
docket numbers 07–0001, 07–0004, and
07–0035. The ECPC reviewed the
proposals and information from the
American Optometric Association and
is recommending changes to the
definition that would more accurately
describe the industry but would not
change the content of the industry in
NAICS 2007.

Three public comments requested a
new industry for design/build firms.
These proposals were assigned docket
numbers 07–0052, 07–0053, and 07–
0054. Similar proposals were received
in both 1997 and 2002. The ECPC
remains opposed to using project
delivery methods to define industries in
the construction sector. The concept
of using project delivery methods was
exhaustively reviewed with Canada and
Mexico during the 2002 revision of the
construction sector. During the 2007
revision process, the ECPC met on
several occasions with those who
requested this new industry and
discussed the criteria for industries in
NAICS, providing background on the
use of products in Census Bureau
programs and the development of the
North American Product Classification
System currently underway. The ECPC
recommends that interested parties
work with statistical data collection
programs in order to ensure that more
exhaustive survey items for the design/
build delivery method are included in
future data collection efforts.

The ECPC also reviewed the structure
of the telecommunications industries in
NAICS 2002 in light of continuing
change in the industry. The ECPC is
recommending changes in the
subsectors for Telecommunications
(517); Internet Service Providers, Web
Search Portals, and Data Processing
Services (518); and Other Information
Services (519).

Infrastructure operators increasingly
provide a bundle of voice, data, and
video services. Traditional telephone
companies are providing broadband
Internet access and video services, along
with telephone service. Traditional
television cable companies are also
providing broadband Internet access
services and telephone services. While
there is considerable interest in tracking
changes in these industries over time, it

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is becoming increasingly difficult to distinguish between a cable company and a telephone company. The convergence of technologies is expected to continue.

The proposal for telecommunications creates three groupings based on the infrastructure operated to provide a variety of audio, video, data, and telephony services. The three primary infrastructure types are wired, wireless, and satellite. In addition, there is a fourth industry group that includes some support activities and resellers who directly buy and resell time on networks (e.g., dial around long distance resellers, mobile virtual network operators) to provide their services. This fourth group would also include units providing services over a connection provided by others (e.g., pure voice over Internet protocol (VoIP) providers).

The wired telecommunications carriers would include units that build and operate their own wired networks, as well as those that lease access to lines and the infrastructure to customers using those facilities. This categorization is to acknowledge that the infrastructure used to provide services can be leased or purchased. The services provided would include telephony, data, and video services, as well as any future services provided using the infrastructure. The grouping would exclude units who are pure resellers—units that buy a block of minutes and resell them without providing any additional service; these units would be included in the “all other telecommunications” grouping. Wired telecommunications carriers would also include those that use a fixed wireless “connection” for the last mile. By exception, satellite television providers will be included in this industry.

The wireless telecommunications carriers would include the units that have spectrum licenses and provide telephony, Internet access, or video services using that spectrum. Wireless telecommunications carriers would not include pure resellers. Mobile virtual network operators (MVNO) providing mobile telephony or other services will be defined as resellers and excluded from this industry. MVNO’s do not have infrastructure or spectrum licenses; rather they resell the services of wireless telecommunication carriers.

The satellite telecommunications industry will remain defined as units primarily engaged in providing point-to-point telecommunications services to other establishments in the telecommunications and broadcasting industries by forwarding and receiving communications signals via a system of satellites or reselling satellite telecommunications.

The fourth grouping of other telecommunications services would include the current content of NAICS 51791, Other Telecommunications, and the pure resellers in separate national industries. Resellers will be classified in NAICS 517911, Telecommunications Resellers, and other telecommunications services will be classified in NAICS 517919, All Other Telecommunications. This industry will include pure VoIP providers (providing VoIP to customers who already have a broadband connection), as well as dial-up Internet service providers (providing access to the Internet through a customer-initiated connection to the telecom system).

Web search portals would be combined with Internet publishing and broadcasting. These types of units were identified separately in NAICS 2002, because they are different from either publishers or broadcasters. The definition of Internet publishing and broadcasting is limited to exclusively publishing and broadcasting on the Internet and the ECPC continues to support the classification of Internet publishers and broadcasters separate from the traditional publishing and broadcasting industries. These establishments will be placed in 519, Other Information Services, as a five-digit NAICS class.

This proposal to restructure the telecommunications industries in NAICS reduces or eliminates industry distinctions based on the product being offered in the telecommunications section of NAICS. The anticipated growth of VoIP, the continued expansion of broadband Internet access, the development of bundles of services provided over available infrastructures, and a desire for a robust structure that will remain relevant, all affected the development of this proposal. It is difficult to predict what the telecommunications industries will look like in the future. This production function approach, based on the infrastructure used rather than the current regulatory constraints or product distinctions, should withstand industry changes better than the current product-oriented structure.

The downside to this proposal is that separate data for cable distribution and telephone service providers will not be available at the industry level. The ECPC understands that this will result in a loss of data. The application of new technologies, such as Internet telephony, is expected to further blur existing lines. The industry classification will not be updated again until 2012. The ECPC has concluded that the existing industry structure will not be viable in the years ahead and therefore recommends that these changes be made now. The ECPC particularly encourages comments supporting or opposing this recommendation. Although separate national industries are expected to cause problems based on regulatory actions in the future, industries for wired telecommunications carriers and for cable and other program distribution could be reinstated at the six-digit level. This would not affect continuity at the five-digit level if separate collection becomes impossible.

A tabular summary of changes to the Information Sector is included in Part IV.

The balance of the comments represented single requests for specific changes. While these requests and the associated ECPC recommendations are not listed in this notice unless a structure or industry content change was recommended, a summary of the decision for each docket received is available on the World Wide Web at http://www.census.gov/naics.

The ECPC is recommending several NAICS industry title changes to more clearly describe the existing content of industries. These title changes do not change the content of industries but rather refine how they are described. Part IV below presents the ECPC recommendations for revisions to NAICS United States for 2007.

NAICS Sector 21, Mining, will be changed to “Mining, Quarrying, and Oil and Gas Extraction.”

NAICS 23821, Electrical Contractors, will be changed to “Electrical Contractors and Other Wiring Installation Contractors.”

NAICS 238210, Electrical Contractors, will be changed to “Electrical Contractors and Other Wiring Installation Contractors.”

NAICS 316999, All Other Leather Good Manufacturing, will be changed to “All Other Leather Good and Allied Product Manufacturing.”

NAICS 322221, Coated and Laminated Packaging Paper and Plastics Film Manufacturing, will be changed to “Coated and Laminated Packaging Paper Manufacturing.”

NAICS 322223, Plastics, Foil, and Coated Paper Bag Manufacturing, will be changed to “Coated Paper Bag and Pouch Manufacturing.”
NAICS 441221, Motorcycle Dealers, will be changed to “Motorcycle, ATV, and Personal Watercraft Dealers.”

NAICS 492110, Couriers, will be changed to “Couriers and Express Delivery Services.”

NAICS 541612, Human Resources and Executive Search Consulting Services, will be changed to “Human Resources Consulting Services.”

NAICS Industry Group 5418, Advertising and Related Services, will be changed to “Advertising, Public Relations, and Related Services.”

NAICS 56131, Employment Placement Agencies, will be changed to “Employment Placement Agencies and Executive Search Services.”

NAICS 722212, Cafeterias, will be changed to “Cafeterias, Grill Buffets, and Buffets.”

Time Series Continuity

The standard approach to preserving time series continuity after classification revisions is to create linkages where the series break. This is accomplished by producing the data series using both the old and new classifications for a given period of transition. With the dual classifications of data, analysts can assess the full impact of the revision. Data producers then may measure the reallocation of the data at aggregate industry levels and develop a concordance between the old and new series for that given point in time. The concordance creates a crosswalk between the old and new classification systems. Statistical agencies in the U.S. are planning links between the 2002 NAICS and 2007 NAICS (with U.S. national detail).

Part IV: Tabular Recommendations for Changes to NAICS United States Effective for 2007

Table 1 presents the proposed NAICS 2007 industries defined by their NAICS United States 2002 content. Table 2 lists, in NAICS United States 2002 order, the disposition of all industries recommended for change and their resulting relationship to NAICS United States 2007 proposed industries.
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<td>*339111</td>
<td>Laboratory Apparatus and Furniture Manufacturing - laboratory furnaces and ovens</td>
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* - part of 2002 industry, R - NAICS 2002 industry code reused with different content, N - new NAICS industry for 2007, E - existing industry with no changes
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* - part of 2002 industry, R - NAICS 2002 industry code reused with different content, N - new NAICS industry for 2002, E - existing industry with no changes
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* = part of 2002 industry, R = NAICS 2002 industry code reused with different content, N = new NAICS industry for 2007, E = existing industry with no changes
### Table 2 - NAICS United States 2002 Matched to NAICS United States 2007

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*pt. - part of NAICS United States 2002 industry*
### Table 2 - NAICS United States 2002 Matched to NAICS United States 2007

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*pt - part of NAICS United States 2007 industry*