

NAICS

Most of the Economic and Labor Market Information Bureau's data published after January 2003 will be based on a new and more flexible industrial coding structure called the North American Industrial Classification System - NAICS for short. The NAICS definitions will replace the familiar Standard Industrial Classification (SIC) system, last revised in 1987. While the SIC system was based on the types of products produced, the NAICS structure is based on the processes used in production.

Why is the system being changed?

There are two main reasons really. First, the North American Free Trade Act necessitated the establishment of NAICS in 1997. For the first time economic statistics will be comparable between the United States, Canada, and Mexico. Second, NAICS will allow the tracking of emerging technology in the economy that couldn't be captured with the SIC system. This is important as reliance on technology and services in our economy continues.

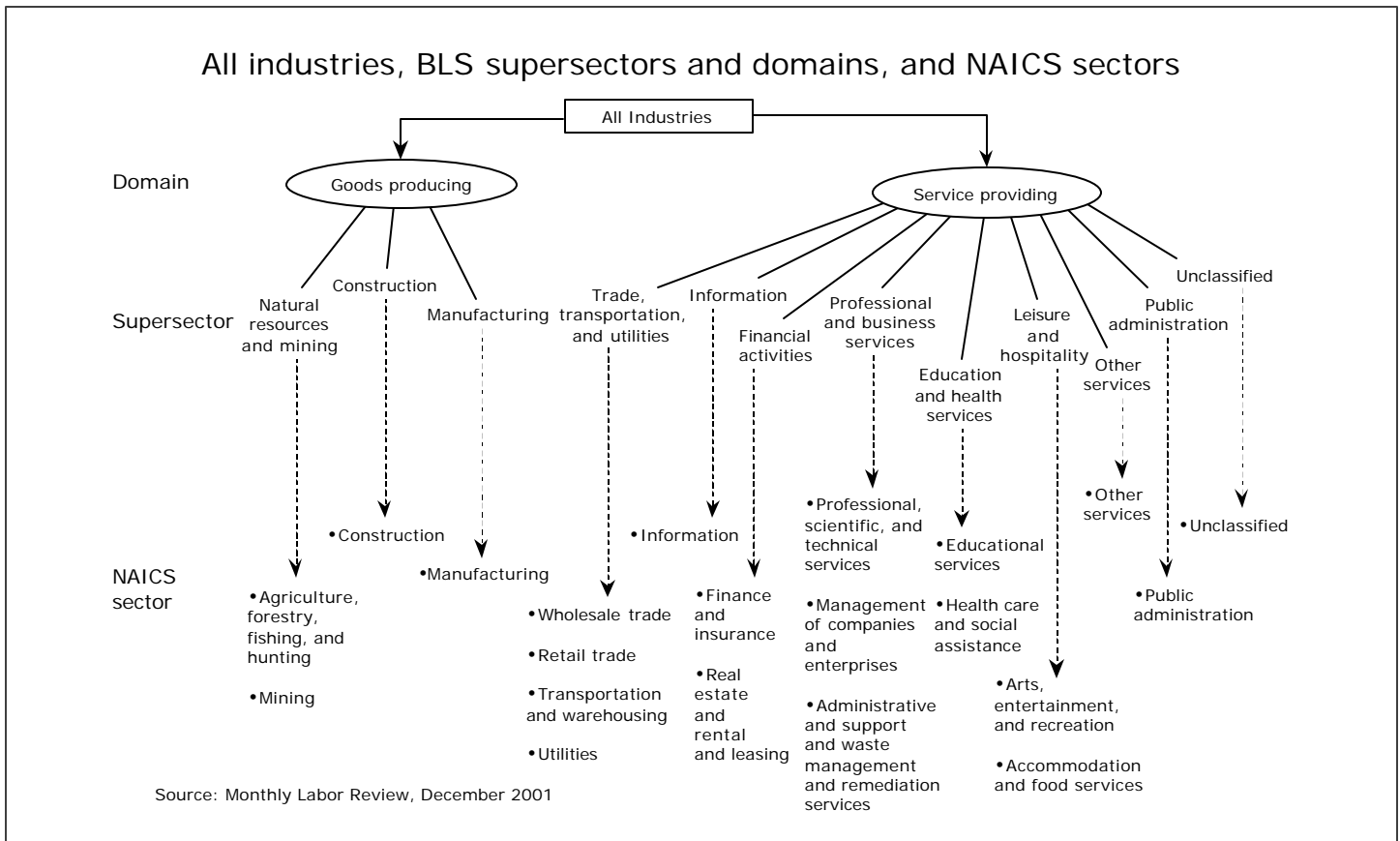
How will this affect you?

If you are an employer it already has. Every year, about one-third of New Hampshire employers receive forms used to validate information about their products. For the past several years, the Annual Refiling Survey and product statements have been used to review the current SIC codes, and also to assign appropriate NAICS codes. This process of *dual coding* has laid the foundation for a smooth transition to the new world of NAICS.

If you are a data user, the change will affect you in a few months. Most data published for time periods after January 2003, including employment estimates and other workforce statistics reported by industry, will use the new NAICS system.

What difference is this going to make?

The primary difference is there will be a time series break in industrial and economic data. Almost two-thirds of the new NAICS industries are compatible/comparable with specific SIC industries. The remaining one-third doesn't fit into any one classification

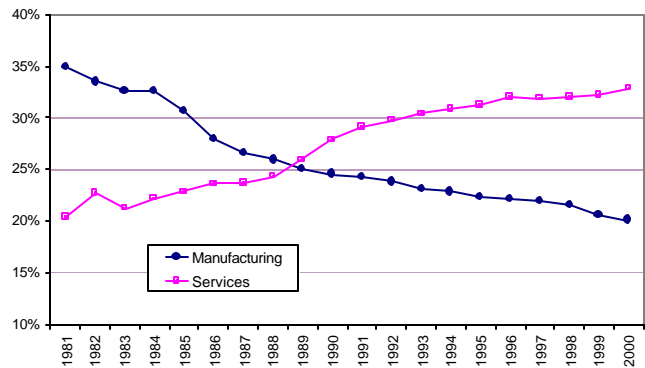


code. Therefore no direct historical comparisons are available. The need for historical data means it has to be reconstructed. Even with the reconstruction of the historical data, it won't be exact. For example, the new NAICS Information supersector or sector (see below) doesn't have a SIC counterpart, so created historical data will be estimates at best. Wholesale and Retail trade (SIC division levels) have no NAICS equivalent at the highest level of aggregation (i.e. supersector level). Reconstructed NAICS historical data will be helpful in analysis. There will not be simultaneous estimates produced in SIC and in NAICS from now on.

In the past two decades, the percentage of New Hampshire's private Manufacturing employment dropped from 29.7 percent of total covered employment in 1981 to 17.5 percent in 2000. Times have changed and the emphasis has shifted to bring Services forward as a major industrial employer. New Hampshire's private Services employment trend was the opposite of Manufacturing, starting at 17.3 percent of total employment in 1981 and rising to 28.7 percent in 2000.

The SIC system was primarily based on what the establishment produced. The fundamental methodology of NAICS is to classify businesses according to their

New Hampshire's economy has switched from Manufacturing to Services-based



production processes (how produced), also referred to as supply-based. For example, within Retail trade the SIC system had grocery stores. With NAICS, grocery stores are further broken out into supermarkets, convenience stores, and warehouse clubs. Additionally, Restaurants have been moved out of Retail trade and have been combined with Accommodations in a new NAICS sector because of similar productive processes. This will be of particular interest in New Hampshire since the hospitality industry is such an important contributor to our local economy.

Comparison of the Information Industry under NAICS and SIC

NAICS Code	NAICS Industry	SIC Code	SIC Industry
51	Information		No comparable grouping
511	Publishing industries, except Internet		No comparable grouping
5111	Newspaper, book, and directory publishers		No comparable grouping
51111	Newspaper publishers		
511110	Newspaper publishers	2711	Newspapers: publishing, or publishing and printing (part)
51112	Periodical publishers	2721	Periodicals: publishing, or publishing and printing (part)
511120	Periodical publishers	2741	Miscellaneous publishing (part)
51113	Book publishers		
511130	Book publishers	2731	Books: publishing, or publishing and printing (part)
		2741	Miscellaneous publishing (part)
51114	Directory and mailing list publishers		
511140	Directory and mailing list publishers	2741	Miscellaneous publishing (part)
		7331	Direct mail advertising services (part)
51119	Other publishers		
511191	Greeting card publishers	2771	Greeting cards (part)
511199	All other publishers	2741	Miscellaneous publishing (part)
5112	Software publishers		
51121	Software publishers		
511210	Software publishers	7372	Prepackaged software (part)

Hierarchical Structures

SIC	NAICS
Division	Supersector
2 digit= Major Group	2 digit= Sector
3 digit= Industry Group	3 digit= Subsector
4 digit= Industry	4 digit= Industry Group
	5 digit= NAICS Industry
	6 digit= National Industry

Another NAICS difference will be the focus on new and emerging industries. New sectors have been designed to include such industries as telecommunications and computer technology. It also encompasses industries, like telemarketing, that had no distinct home in the SIC system. In addition, the NAICS expanded classification categories to further identify closely linked industries, i.e. health care and social assistance, based on the intensity of the medical care or social assistance provided.

The NAICS hierarchical system is similar to how the SIC was set up. The difference is that NAICS is a six-digit classification system that allows for greater versatility in coding than did the SIC with its four-digit system. The SIC series had eleven *divisions* including Public administration and Unclassified. The *divisions* were separated into *major industry groups* (otherwise known as the two-digit SIC level). That included 72 major industrial group designations plus Government.

The terminology for NAICS will change from that previously used in SIC. The NAICS series will now include twelve *supersectors* compared to the eleven SIC divisions. The reorganization isn't as neat and easy as it would appear from adding just one category. That is because some of the previous groupings have been combined, while new ones were established. For example, *Trade and Transportation and public utilities* are now part of the same *supersector* in NAICS and were two separate *divisions* in the SIC. On the other hand, the SIC Services division has been essentially split into multiple new NAICS sectors, including *Professional and business services, Education and health services, Leisure and hospitality, and Other services*. This reflects the changes occurring within the economy, from the

once dominant Manufacturing and goods producing economy to one that is now more service oriented.

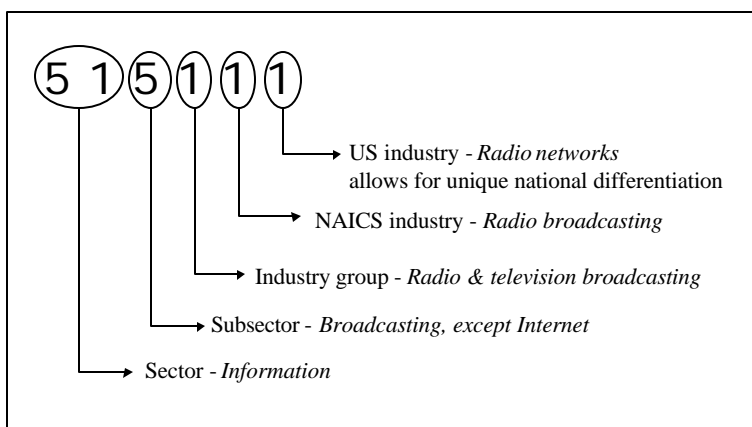
The NAICS *supersectors* are broken down into 20 *NAICS sectors* (two-digit) plus Unclassified. The *sectors* represent the general categories of economic activities, similar to how the *major group* level did under the SIC system. These NAICS *sectors* are further disaggregated to *subsectors* that correspond to the third digit of the NAICS code. Increasing digits in the NAICS code, going down the hierarchy, narrows the distinctions between the categories. There can be multiple *subsectors* within a *sector*. This is part of what gives the NAICS flexibility to provide detailed information. An example is the new *sector* Information. Expanding that to the third-digit level adds seven new and distinct *subsectors*:

- 51 Information
- 511 Publishing industries (except Internet)
- 512 Motion picture and sound recording industries
- 515 Broadcasting (except Internet)
- 516 Internet publishing and broadcasting
- 517 Telecommunications
- 518 Internet service providers, web search portals and data processing
- 519 Other information services¹

Further details are available from the *fourth* digit of the NAICS code that represents the industry group level. United States, Canada, and Mexico will normally be able to share comparable data down to the *fifth* digit level. The *sixth* digit further differentiates industries that are important within one country but not large enough to be compared with the other countries.

Another major difference is where the SIC assigned auxiliary establishments the same code as the parent company, even though their function was different. The corporate office of a Manufacturing plant was considered an establishment in Manufacturing under SIC. The NAICS will count these establishments by what they actually do. Employment and wage data for a corporate office for that Manufacturing company will now be counted as an establishment in the Professional and business services NAICS *supersector*.

The conversion may be challenging for data



Comparison of the structure NAICS and SIC

NAICS Supersector	SIC Divisions
Natural resources and mining Construction Manufacturing Trade, transportation, and utilities Information Financial activities Professional and business services Education and health services Leisure and hospitality Other Services Public Administration Unclassified	A - Agriculture, forestry, and fishing B - Mining C - Construction D - Manufacturing E - Transportation, communication, electric, gas, and sanitary services F - Wholesale trade G - Retail trade H - Finance, insurance, and real estate I - Services J - Public administration K - Nonclassifiable establishments

Examples of New NAICS Industries

- Semiconductor and related device manufacturing
- Cellular and other wireless telecommunications
- Satellite telecommunications
- Internet publishing and broadcasting
- Telemarketing bureaus
- Temporary help supply services
- Continuing care retirement communities

users, but the effort will be worth it in the new detailed information that will be available. Economic data for many emerging industries will be available for the first time. The NAICS will assist everyone in evaluating the changes that are occurring in our local, regional, and national economies.

Anita Josten

¹ Walker, James A., and John B. Murphy. "Implementing the North American Industry Classification System at BLS." Monthly Labor Review December 2001: pg. 16.