

OFFICE OF MANAGEMENT AND BUDGET

1997 North American Industry Classification System—Completion Activities for 2002

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

ACTION: Notice of intention to complete portions of the North American Industry Classification System (NAICS) for 2002.

SUMMARY: Under Title 44 U.S.C. 3504(e), the Office of Management and Budget (OMB), through the Economic Classification Policy Committee (ECPC), is seeking public comment (please see Part V of the Supplementary Information section below) on a proposal to complete portions of the North American Industry Classification System (NAICS) for 2002. NAICS was jointly developed by Canada, Mexico, and the United States. The proposed completion activities will focus on the Construction and Wholesale Trade sectors of NAICS. Currently, these sectors are comparable among all three countries only at the highest levels of aggregation. The ECPC also will consider narrowly defined Retail Trade issues related to the national industries for department stores and nonstore retailers as well as specific problems that may be identified in the implementation of NAICS 1997. It is not the intent of the ECPC to open for consideration all areas of NAICS that currently lack three-country comparability nor to revise sectors other than those specifically listed above. Work is under way to determine if 5-digit agreement can be reached among Canada, Mexico, and the United States in Construction and Wholesale Trade.

DATES: To ensure consideration, all proposals for sector hierarchies and new industries must be made in writing and should be submitted as soon as possible, but should be received no later than April 26, 1999. In addition, all comments on the usefulness and advisability of completion of the Construction and Wholesale Trade sectors, modifications to national industries for department stores and nonstore retailers, changes to alleviate implementation problems, and timing of completion activities must be submitted in writing and be received no later than April 26, 1999.

ADDRESSES: Correspondence concerning the usefulness and advisability of completion of the Construction and Wholesale Trade sectors, modifications to national industries for department stores and nonstore retailers, changes to

alleviate implementation problems, and timing of completion activities should be made to Carole Ambler, Chair, Economic Classification Policy Committee, Bureau of the Census, Room 2633-3, Washington, D.C. 20233, E-mail address: cambler@ccmail.census.gov, Telephone number: (301) 457-2668, FAX number: (301) 457-1343.

All proposals for the hierarchical structure of the Construction sector and Wholesale Trade sector as well as for new industries in these sectors, or for changes to the national industries for department stores and nonstore retailers based on the production-oriented conceptual framework of NAICS, should be addressed to: John Murphy, Co-chair, Administrative Subcommittee of the ECPC, Bureau of Labor Statistics, 2 Massachusetts Avenue N.E., Room 4840, Washington, DC 20212, E-mail address: Murphy_John@bls.gov, Telephone number: (202) 606-6475, FAX number (202) 606-6645.

Electronic Availability: This document is available on the Internet from the Census Bureau Internet site via WWW browser. To obtain this document, connect to "<http://www.census.gov>" then select "Subjects A to Z," then select "N," then select "NAICS (North American Industry Classification System)." This WWW page contains previous NAICS United States **Federal Register** notices, ECPC Issues Papers, ECPC Reports, the current structure of NAICS United States, and related documents.

Public Review Procedure: All comments and proposals received in response to this notice will be available for public inspection at the Bureau of the Census, U.S. Department of Commerce, Suitland Federal Center, Suitland, Maryland. Please telephone the Census Bureau at (301) 457-2672 to make an appointment to enter the Federal Center. All proposals recommended by the ECPC will be published in the **Federal Register** for review and comment prior to final action by OMB. Those making proposals will be notified directly of action taken by the ECPC; others will be advised through the **Federal Register**.

FOR FURTHER INFORMATION CONTACT: John Murphy, Co-chair, Administrative Subcommittee of the ECPC, Bureau of Labor Statistics, 2 Massachusetts Avenue NE, Room 4840, Washington, DC 20212, E-mail address: Murphy_John@bls.gov, Telephone number: (202) 606-6475, FAX number (202) 606-6645.

SUPPLEMENTARY INFORMATION: The Supplementary Information section of this notice is divided into five parts:

Part I summarizes the background for NAICS 1997; Part II contains areas of less than full comparability at the individual detailed industry level of NAICS; Part III details the process that the ECPC will use to develop its recommended actions for the sectors targeted for completion; Part IV outlines a work plan that will be used for the proposed completion of the NAICS sectors for Construction and Wholesale Trade, and the national industries for department stores and nonstore retailers; and Part V highlights areas in which the ECPC is soliciting public comment..

Part I: Background of NAICS 1997

NAICS is a system for classifying establishments 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 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 Estadística, Geografía e Informática (INEGI), Statistics Canada, and the United States Office of Management and Budget (OMB), through its Economic Classification Policy Committee (ECPC), 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 production processes should be grouped together in the classification. NAICS also reflects in a much more explicit way the enormous changes in technology and in the growth and diversification of services that have marked recent decades. Industry statistics presented using NAICS also are comparable with statistics compiled according to the latest revision of the United Nations' International Standard Industrial Classification (ISIC, Revision 3) for some sixty high-level groupings.

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. The portions of NAICS that are not comparable at the detailed industry level are delineated in Part II of this section.

The four principles of NAICS are:

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.

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.

Time series continuity is maintained to the extent possible. Adjustments will be required for sectors where Canada, Mexico, and the United States have incompatible industry classification definitions in order to produce a common industry system for all three North American countries.

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 as it develops further refinements. The

current round of completion activities is limited in scope based on the NAICS' principle regarding time series continuity. The ECPC realizes that this completion activity may occur before all users have initially implemented NAICS. The narrow focus of the completion activities, and the importance of Construction and Wholesale Trade to the economies of all three countries, will outweigh the time series breaks and resulting noncomparability of time series. Users are encouraged to implement the 2002 revision of NAICS once it becomes official.

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

Sector	2-digit	Sectors represent the highest level of aggregation. There are 20 sectors in NAICS representing broad levels of aggregation.
Subsector	3-digit	Subsectors represent the next, more detailed level of aggregation in NAICS. There are 96 subsectors in NAICS.
Industry Group	4-digit	Industry groups are more detailed than subsectors. There are 311 industry groups in NAICS.
NAICS Industry	5-digit	NAICS industries are the level that, in most cases, represents the lowest level of three country comparability. There are 721 5-digit industries in NAICS.
National Industry	6-digit	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 1170 U.S. industries in NAICS United States.

Sectoral hierarchies and specific industry proposals will be considered within the structure presented above.

Part II: NAICS Areas Without Full Comparability at the Detailed Industry Level

The NAICS sectors that currently are not comparable at the detailed industry level are: utilities; construction; wholesale trade; retail trade; finance and insurance; and public administration. The subsectors that are not comparable at the detailed industry level are: Real Estate; Waste Management and Remediation Services; as well as other services including Personal and Laundry Services, and Religious, Grantmaking, Civic, Professional and Similar Organizations. Separate agreements providing for detailed industry comparability between Canada and the United States were reached for the Utilities, Retail Trade, and Finance and Insurance Sectors. To distinguish the three countries' versions of NAICS, they are called NAICS Canada, NAICS Mexico (SCIAN Mexico, in Spanish), and NAICS United States.

The ECPC recognizes the need for complete comparability in the NAICS structures being used in the three countries. The ECPC also recognizes the time sensitive nature of any revisions

for 2002. For this reason, the ECPC will limit consideration of work for completion to those areas of NAICS where there currently is comparability at the two-digit (sector) level only. The Public Administration sector is not a priority for the ECPC at this time. Although there is only two-digit comparability for Public Administration, the governmental structures in each of the three countries are very different, and there is no great need for comparable statistics within the Public Administration sector at the detailed industry level in all three countries. There is agreement between NAICS Canada and NAICS United States in the Retail Trade sector at the five-digit level. Further work in this area also is not a priority for the ECPC. The Finance and Insurance sector is currently comparable at the 3-, 4-, or 5-digit level with Canada and Mexico. This sector is the subject of various legislative efforts in the United States, and significant change in the structure of the industry may occur in the next five years. For this reason, the United States would recommend postponing any further work in Finance and Insurance until 2007 or later.

Revisions to Construction and Wholesale Trade will create significant disruptions for data users but are

considered worthwhile if lower level comparability can be achieved with our partners in Canada and Mexico. The ECPC will strive to minimize any disruptions by revising only those sectors of critical importance in all three countries where there is currently two-digit comparability.

Part III: U.S. Procedures and Solicitation of Proposals for Hierarchies and Detailed Industries

1. Proposals for sectoral hierarchies in Construction and Wholesale Trade should be consistent with the production-oriented conceptual framework incorporated in the principles of NAICS. When formulating proposals, please note the hierarchies should contain only those activities currently included by all three countries in the sector that is addressed by a proposal. The scope of existing sectors and industries in NAICS is detailed in the NAICS United States Manual. Copies of this manual can be purchased from the National Technical Information Service (NTIS) at (800) 553-6847 or <http://www.ntis.gov>. Proposals must be in writing and should include the following information:

(a) Subsector(s) (3-digit level), and industry group(s) (4-digit level), detail for the entire sector. These breakouts

should be based on a production-oriented breakout to be used at the higher levels of the sectoral hierarchy. A narrative description of the production-oriented justification that forms the basis for a sectoral hierarchy should be included. These 3-digit and 4-digit breakouts will form the basis used to create lower level industries. For example, a sectoral proposal for Construction might include the following detail:

Sector 23	Construction
Subsector 231	Wood Construction.
Industry Group 2311	Wood Residential Buildings.
Industry Group 2312	Wood Nonresidential Construction.
Subsector 232	Masonry Construction.
Industry Group 2321	Masonry Residential Buildings.
Industry Group 2322	Masonry Nonresidential Construction.
Subsector 233	Steel and Concrete Construction.
Industry Group 2331	Steel and Concrete Buildings.
Industry Group 2332	Other Steel and Concrete Construction.

In this hypothetical proposal, the building material and related processes are the production-oriented justification for higher level breakouts within the Construction sector. The sectoral hierarchy proposals may contain information at the NAICS industry (5-digit level) as well as the national industry level (6-digit), if desired.

(b) Specific indication of the relationship of the proposed sectoral hierarchy(ies) to the 1997 NAICS United States sector, subsector, industry group, NAICS industry, and national level industry detail.

2. Proposals for new or revised 6-digit industries in the Construction and Wholesale Trade sectors and the detailed national level industries for department stores and nonstore retailers should be consistent with the production-oriented conceptual framework incorporated into the principles of NAICS. When formulating proposals, please note that an industry classification system groups the economic activities of establishments or producing units, which means that products and activities of the same producing unit cannot be separated in the industry classification system. Proposals must be in writing and should include the following information:

(a) Specific detail about the economic activities to be covered by the proposed industry, especially its production processes, specialized labor skills, and

any unique materials used. This detail should demonstrate that the proposal groups establishments that have similar production processes in accordance with the NAICS production-oriented industry concept (see ECPC Issues Paper No. 1, ECPC Reports Nos. 1 and 2).

(b) Specific indication of the relationship of the proposed industry to existing NAICS United States 6-digit industries.

(c) Documentation of the size and importance of the proposed industry in the United States.

(d) Information about the proposed industry in Canada and Mexico would be helpful, if available.

Evaluation Criteria

Proposals submitted to the ECPC recommending a sectoral hierarchy or requesting the creation of, or a revision to, a 6-digit industry will be evaluated using production-oriented criteria. The ECPC and its subcommittees will evaluate proposals for sectoral hierarchies before evaluating specific industry proposals. Please note that a detailed industry proposal that meets the production-oriented conceptual framework of NAICS may not be accepted if it is in conflict with an accepted sectoral hierarchy proposal. ECPC Issues Paper No. 4, "Criteria for Determining Industries," describes some measures that may be used, e.g., the specialization ratio and the heterogeneity measure (see also ECPC Report No. 2, "The Heterogeneity Index: A Quantitative Tool to Support Industry Classification"). Other measures of the similarity among establishments will be considered and developed where necessary. For example, a coefficient of variation measure may be applied where applicable. However, all these statistical measures will supplement, not supplant, industry expertise and expert judgments about industry production processes and similarities.

Proposed industries must also include a sufficient number of companies so that Federal agencies can publish industry data without disclosing information about the operations of individual firms. The ability of government agencies to classify, collect, and publish data on the proposed basis will also be taken into account (see ECPC Issues Paper No. 3). Proposed changes must be such that they can be applied by agencies within their normal processing operations.

Proposals will be exchanged with Statistics Canada and INEGI, and reviewed jointly in the completion of NAICS. It would be helpful, although not required, if written proposals for new industries in NAICS present any available information on whether the

proposed industry exists in Canada or Mexico, and whether the proposal can be implemented in those countries.

Part IV: Work Plan

Within the framework of Parts II and III above, the ECPC intends to begin the completion of targeted sectors. This notice requests specific proposals for NAICS. Public comments and input from government agencies that collect, compile, and use data that are categorized by economic classifications will contribute to the completion of targeted sectors in NAICS. The ECPC will charter a subject matter subcommittee to address wholesale trade proposals and a second subcommittee to address construction proposals. The Administrative Subcommittee of the ECPC will address proposals for national industries related to department stores and nonstore retailers, as well as implementation problems that may arise. The Administrative Subcommittee will coordinate and review the efforts of the subject matter subcommittees and submit detailed recommendations to the ECPC. The completion activities will take a top down approach to the targeted sectors. First, a subsector and industry group structure will be developed and agreed upon by the ECPC, INEGI, and Statistics Canada. Creation of NAICS and national level industries will be based on the sectoral structures developed. The specific milestones for additional activities of the ECPC are as follows:

Publish **Federal Register** notice of proposed ECPC recommendations for public comment. (Fall 1999)

Publish **Federal Register** notice of final OMB decisions. (Spring 2000)
Begin implementation activities. (Fall 2000)

Part V: Request for Comments

The ECPC is seeking comments on: (1) the usefulness and advisability of completing the Construction and Wholesale Trade sectors in NAICS, modifying the national industries for department stores and nonstore retailers, and addressing specific problems that may be identified in the implementation of NAICS 1997; and (2) the timing of the proposed completion activities. Using the procedures discussed in Part III above, the ECPC is also seeking proposals for: (1) the hierarchical structures of the Construction sector and the Wholesale Trade sector, (2) new industries for the Construction and Wholesale Trade sectors, and (3) modifications to the national industries for department stores and nonstore retailers based on

the production-oriented conceptual framework used in NAICS.

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Regulatory Affairs.*

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