

OFFICE OF MANAGEMENT AND BUDGET

1997 North American Industry Classification System -- 1987 Standard Industrial Classification Replacement

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

ACTION: Notice of final decision.

SUMMARY: This notice presents the Office of Management and Budget's final decisions for the adoption of the North American Industry Classification System (NAICS) for the United States, a new economic classification system that replaces the 1987 Standard Industrial Classification (SIC) for statistical purposes. 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 of statistical data describing the economy. NAICS will be used by Federal statistical agencies that collect or publish data by industry. It is also expected to be widely used by State agencies, trade associations, private businesses, and other organizations.

The Instituto Nacional de Estadística, Geografía e Informática (INEGI) of Mexico, Statistics Canada, and the United States Office of Management and Budget (OMB), through its Economic Classification Policy Committee (ECPC), have collaborated on NAICS to make the industrial statistics produced in 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. The fresh view of establishment data that this restructuring will provide should engender insights into the increasingly interrelated evolution of our economies. 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 compiled using NAICS will also be 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.

NAICS will provide a consistent framework for the collection, tabulation, presentation, and analysis of industrial statistics used by government policy analysts, by academics and researchers, by the business community, and by the public. Because of differing national economic and institutional structures as well as limited resources and time for constructing NAICS, however, the NAICS structure has not been made entirely comparable at the individual industry level across all three countries. For some sectors and subsectors, the statistical agencies of the three countries have agreed to harmonize NAICS based on sectoral boundaries rather than on a detailed industry structure. Those sectors or subsectors are: utilities; construction; wholesale trade; retail trade; finance and insurance; real estate; waste management and remediation services; other services that include personal and laundry services, and religious, grantmaking, civic, and professional and similar organizations; and public administration. To ensure comparability between

Canada and the United States, the two countries have agreed on an industry structure and hierarchy for each sector listed above except for construction, wholesale trade, and public administration. In some cases within these sectors, the United States will provide for additional industries at the national level to reflect important industries in the United States that will not be shown separately in Canada. To distinguish the three countries' versions of NAICS, they are called NAICS Canada, NAICS Mexico (SCIAN Mexico, in Spanish), and NAICS United States.

In developing NAICS United States, OMB has published a total of seven previous Federal Register notices advising the public of the work of the ECPC and seeking comment on that work. The March 31, 1993, Federal Register notice (pp. 16990-17004) announced OMB's intention to revise the SIC for 1997, the establishment of the Economic Classification Policy Committee, and the process for revising the SIC. The July 26, 1994, Federal Register notice (pp. 38092-38096) set forth the concepts for the new system and the decision to develop NAICS in cooperation with Statistics Canada and INEGI. That notice also included a request for the public to submit recommendations for the industries to be included in the new system. The deadline for submitting proposals for new or revised industries was November 7, 1994.

After considering all proposals from the public, consulting with a large number of U.S. data users and industry groups, and undertaking extensive discussions with INEGI and Statistics Canada, a new industrial structure for NAICS that would apply to all three North American countries was developed. A series of five Federal Register notices sought comment on the structure of the system. These notices are described in more detail in the Supplementary Information section below.

As intimated by the description below of the NAICS development process, the actual classification presented at the end of this notice in Tables 1 and 2 reveals only the tip of the work carried out by dedicated individuals from INEGI, Statistics Canada, and U.S. statistical agencies. It is through their efforts, painstaking analysis, and spirit of accommodation that NAICS has emerged as a harmonized international classification of economic activities. This has been an immense undertaking that has required the time, energy, creativity, and cooperation of numerous people and organizations throughout the three countries. The work that has been accomplished is a testament to the individual and collective willingness of many persons and organizations both inside and outside government to contribute to the development of NAICS.

EFFECTIVE DATE: Federal statistical data published for reference years beginning on or after January 1, 1997, will be published using the new NAICS United States codes. NAICS is scheduled to go into effect in 1997 in Canada and the United States, and in 1998 in Mexico. Publication of the 1997 NAICS United States Manual is planned for December 1997. Use of NAICS for nonstatistical purposes (e.g., administrative, regulatory, or taxation) will be determined by the agency or agencies that have chosen to use the SIC for nonstatistical purposes. Readers interested in the effective dates for the use of NAICS for nonstatistical purposes should contact the relevant agency to determine its plans, if any, for a transition from use of the SIC to NAICS.

ADDRESSES: Please send correspondence about the final decisions to: Katherine K.

Wallman, Chief Statistician, Office of Management and Budget, New Executive Office Building, 725 17th Street, NW, Room 10201, Washington, D.C. 20503, telephone number: (202) 395-3093, FAX number: (202) 395-7245.

ELECTRONIC AVAILABILITY AND CORRESPONDENCE: This document is available on the Internet from the Census Bureau Internet site via WWW browser, ftp, and E-mail.

To obtain this document via WWW browser, 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 and related documents as well.

To obtain this document via ftp, log into ftp.census.gov as anonymous, and retrieve the files "naicsfr8.pdf," "naicsfr8tbl1.pdf," and "naicsfr8tbl2.pdf" from the "/pub/epcd/naics" directory. (That directory also contains previous NAICS United States Federal Register notices and related documents.)

To obtain this document via Internet E-mail, send a message to majordomo@census.gov with the body text as follows: "get gatekeeper naics.txt". Instructions for obtaining this and other NAICS United States documents will be delivered as a message attachment.

Correspondence may be sent via Internet E-mail to OMB at naics@a1.eop.gov (do not include any capital letters in the address).

FOR FURTHER INFORMATION CONTACT: Paul Bugg, 10201 New Executive Office Bldg., Washington, D.C. 20503, E-mail address: bugg_p@a1.eop.gov, telephone number: (202) 395-3093, FAX number: (202) 395-7245. Inquiries about the content of industries or requests for electronic copies of the tables should be made to Carole Ambler, Coordinator, 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.

SUPPLEMENTARY INFORMATION:

NAICS Development Process

The Standard Industrial Classification (SIC) was originally developed in the 1930's to classify establishments by the type of activity in which they are primarily engaged and to promote the comparability of establishment data describing various facets of the U.S. economy. The SIC covers the entire field of economic activities by defining industries in accordance with the composition and structure of the economy. Over the years, it was revised periodically to reflect the economy's changing industry composition and organization. OMB last updated the SIC in 1987.

In recent years, rapid changes in both the U.S. and world economies brought the SIC under increasing criticism. The 1991 International Conference on the Classification of Economic Activities provided a forum for exploring the issues and for considering new

approaches to classifying economic activity.

In July 1992, the Office of Management and Budget established the Economic Classification Policy Committee chaired by the Bureau of Economic Analysis, U.S. Department of Commerce, with representatives from the Bureau of the Census, U.S. Department of Commerce, and the Bureau of Labor Statistics, U.S. Department of Labor. OMB charged the ECPC with conducting a "fresh slate" examination of economic classifications for statistical purposes and determining the desirability of developing a new industry classification system for the United States based on a single economic concept. A March 31, 1993, Federal Register notice (pp. 16990-17004) announced OMB's intention to revise the SIC for 1997, the establishment of the Economic Classification Policy Committee, and the process for revising the SIC. The ECPC published six issue papers relating to industrial classification for comment. Those papers are as follows:

Issues Paper No. 1 - Conceptual Issues

Issues Paper No. 2 - Aggregation Structures and Hierarchies

Issues Paper No. 3 - Collectibility of Data

Issues Paper No. 4 - Criteria for Determining Industries

Issues Paper No. 5 - The Impact of Classification Revisions on Time Series

Issues Paper No. 6 - Services Classifications

In addition to these issue papers, two research reports were published providing further information on industry classifications. The first report was part of a comparative review of Canadian and U.S. SIC concepts. The ECPC and Statistics Canada reviewed the existing structure of detailed "4-digit" industries in the 1987 U.S. SIC and the 1980 Canadian SIC for conformance to economic concepts. The results of the U.S. review are contained in ECPC Report No. 1., "Economic Concepts Incorporated in the Standard Industrial Classification Industries of the United States," and the Canadian results are contained in "The Conceptual Basis of the Standard Industrial Classification," Standards Division, Statistics Canada. The second ECPC report evaluated U.S. industries using the new "index of heterogeneity" to assess whether establishments in existing 1987 4-digit industries met the conditions for the production-oriented classification concept, as presented in ECPC Issues Paper No. 1. The ECPC Report No. 2 is titled "The Heterogeneity Index: A Quantitative Tool to Support Industrial Classification."

A July 26, 1994, Federal Register notice (pp. 38092-38096) announced that the ECPC was developing NAICS in cooperation with INEGI and Statistics Canada and proposed that NAICS replace the 1980 Canadian SIC, the Mexican Classification of Activities and Products (1994) (CMAP), the industry classification system of Mexico, and the 1987 SIC in the United States. The notice requested comments on that proposal and on the structure of the new system. That notice also included the concepts of the new system and the principles upon which the three countries proposed to develop NAICS, as follows:

(1) NAICS will be erected on a production-oriented, or supply-based, conceptual framework. This means that producing units that use identical or similar production processes will be grouped together in NAICS.

(2) The system will give 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 will be maintained to the extent possible. However, changes in the economy and proposals from data users must be considered. In addition, adjustments will be required for sectors where Canada, Mexico, and the United States presently have incompatible industry classification definitions in order to produce a common industry system for all three North American countries.

(4) The system will strive for compatibility with the 2-digit level of the International Standard Industrial Classification of All Economic Activities (ISIC, Rev. 3) of the United Nations.

In response to the July 26, 1994, Federal Register notice, the ECPC received 125 public responses to the call for proposals for new and revised industries, plus 8 responses from 6 State government agencies, and 9 responses from 6 Federal Government agencies. These formal responses contained several hundred proposals. Additional proposals and suggestions for change arose from the extensive ECPC public outreach program, which consisted of meetings and other communications with industry, data user, and data respondent groups. Other proposals for modifications such as changing industry definitions and clarifying boundaries, came from U.S. statistical agency personnel who worked on NAICS, reflecting accumulated public comments and criticism, over a number of years, of the U.S. SIC system. The ECPC also received a number of proposals to eliminate U.S. industries, or to combine them with other industries.

Comments to the ECPC from these sources ranged over many aspects of the 1987 SIC system. For example, approximately 20 percent of the formal letters received concerned ambiguities in the titles and definitions of the 1987 SIC industries, and incomplete or out-of-date product lists. More than 40 respondents requested better-defined product detail within existing industries, without necessarily requesting changes to industry boundaries. These product-oriented requests and suggestions are being handled through the redesign of forms where product information is collected in the 1997 Economic Censuses.

Another group of responses to the notice were proposals for a "separate, market-oriented product grouping system" (July 26, 1994, Federal Register, p. 38095). These proposals were submitted as industry proposals but, after analysis by the ECPC, were found more appropriately to be market-oriented product groupings, and have been held over for action during production of the product coding system discussed below.

Proposals were also received for changing or modifying the boundaries of existing industries, without necessarily creating a new industry. In addition, changes to 1987 SIC industry definitions were frequently required to bring about compatibility with the Canadian and Mexican classifications (as were corresponding changes in those countries' classification systems). Those changes are listed and described in five Federal Register notices that portray portions of the proposed NAICS United States system. These notices are described more fully below. Some changes that were required for international compatibility interacted with proposed changes from the U.S. public, and in some cases the two kinds of changes resulted in a broader rethinking of the entire portion of the structure.

The ECPC established seven subcommittees composed of senior economists,

statisticians, and classification specialists representing 14 of the Federal agencies that use the SIC. Subcommittees were established for Agriculture; Mining and Manufacturing; Construction; Distribution Networks (retail trade; wholesale trade; and transportation, communications, and utilities); Finance, Insurance, and Real Estate; Business and Personal Services; and Health, Social Assistance, and Public Administration. They were responsible for developing the proposed structure of NAICS in cooperation with representatives from INEGI and Statistics Canada. The ECPC also established the U.S. Coordinating Committee that was responsible for coordinating the work of the U.S. subcommittees and the work with INEGI and Statistics Canada.

The structure of NAICS was developed in a series of meetings among the three countries. Public proposals for individual industries from all three countries were considered for acceptance if the proposed industry was based on the production-oriented concept of NAICS.

As groups of subsectors of NAICS were completed and agreed upon by the three countries, the ECPC published the proposed industries for those subsectors for public comment in the Federal Register. Five successive Federal Register notices were published asking for comment. A first notice published in the Federal Register, July 26, 1995 (pp. 38436-38452), requested comment on proposed industry structures for petroleum and coal product manufacturing, chemical manufacturing, and rubber and plastics manufacturing; for broadcasting and telecommunications; and for food services and drinking places and accommodations. A second Federal Register notice published on February 6, 1996 (pp. 4524-4578), requested comment on proposed industry structures for crop production, animal production, forestry and logging; textile mills, textile product mills, apparel manufacturing, and leather and allied product manufacturing; food manufacturing and beverage and tobacco product manufacturing; fabricated metal product manufacturing; machinery manufacturing; electrical equipment, appliance and component manufacturing; and transportation equipment manufacturing. A third Federal Register notice published on May 28, 1996 (pp. 26558-26668), requested comment on proposed industry structures for health and social assistance; educational services; computers and electronics product manufacturing; furniture manufacturing; printing and related support activities; professional, technical and scientific services; performing arts, spectator sports and related industries; museums, historical sites and similar institutions; recreation, amusement and gambling; information; wood product manufacturing, except furniture; rental and leasing; repair and maintenance; management and support; transportation; mining; paper manufacturing; nonmetallic minerals manufacturing; primary metal manufacturing; miscellaneous manufacturing; and postal service and couriers. A fourth Federal Register notice published on July 5, 1996 (pp. 35384-35515), requested comment on proposed industry structures for finance and insurance; wholesale trade; retail trade; construction; utilities; waste management and remediation services; real estate; lessors of other nonfinancial assets; personal and laundry services; and religious, grant making, civic, and other membership organizations. That notice also requested comments on the proposed hierarchy and coding system for NAICS. Finally, a fifth Federal Register notice published on November 5, 1996 (pp. 57006-57183), announced the ECPC's final recommendations to OMB for the complete structure of NAICS United States, including the hierarchy and coding system, and asked for public

comments. Final comments were due on December 20, 1996. Changes incorporated into the new system based on comments in response to the November 5, 1996, notice are presented in the section below containing OMB's Final Decisions.

In response to those notices, the ECPC received approximately 400 additional comments. A significant number of these comments supported the development of NAICS, expressed the view that NAICS is a significant improvement over the SIC system, or supported the inclusion in NAICS of specific industries. Other comments requested clarification of a concept or industry title. Of the few who commented on the proposed coding system, over one-half supported the 6-digit system that has been adopted. Over one-half of the comments received requested changes to the proposed system. Some of these proposed changes were requests for new or revised industries even though the deadline for receiving such requests was November 7, 1994. However, the ECPC did consider these new requests. There were also requests for title changes. Each comment was carefully considered, as were comments received by INEGI and Statistics Canada. After consultation with INEGI and Statistics Canada, changes based on the comments were incorporated into the ECPC's final recommendations to OMB for NAICS United States as presented in the November 5, 1996, Federal Register notice (pp. 57006-57183).

NAICS Structure

NAICS is organized in a hierarchical structure, much like the existing U.S. SIC. The 1987 SIC employs a 4-digit coding system, in which the first two digits designate a "major group" that in NAICS is known as a "subsector," the third digit designates the industry group, and the fourth digit designates the industry. For example, in the 1987 U.S. SIC, the two digits 26 designate the major group for the manufacture of "Paper and Allied Products," within which the digits 262 designate an industry group titled "Paper Mills," which contains one 4-digit industry, SIC 2621, also titled "Paper Mills."

NAICS employs a 6-digit coding system in which the first two digits designate the sector (the NAICS term "sector" is replacing the term "division" used in the 1987 SIC), the third digit designates the subsector, the fourth digit designates the industry group, the fifth digit represents the NAICS industry (the most detailed level at which comparable data will be available for Canada, Mexico, and the United States), and the sixth digit designates individual country-level national industries. Using the paper mill example above, in NAICS United States industry 322121 the two initial digits 32 designate a manufacturing sector and the three digits 322 designate the paper manufacturing subsector. Within 322 is the industry group 3221, Pulp, Paper, and Paperboard Mills, within which is NAICS industry 32212, Paper Mills. There are two U.S. national industries under Paper Mills: 322121, Paper (except Newsprint) Mills, and 322122, Newsprint Mills.

The NAICS coding system was expanded to six digits from the four digits used in the SIC for two reasons. First, it is desirable that the first character or characters in a coding system designate the sector. A modern economy is too complex to be described adequately with the nine or ten sectors permitted by using only a single digit in a coding system. For example, NAICS has 20 sectors. Accordingly, the first two digits are used

to designate the sector in NAICS.

Second, the NAICS agreements among the ECPC, INEGI, and Statistics Canada permit each country to designate detailed industries, below the level of a five-digit NAICS industry, to meet national needs. The United States will have such national industry detail in many places in the new classification. The sixth digit in the NAICS United States codes designates the U.S. detailed national industries.

Thus NAICS will have a six-digit coding system in which the first two digits designate the NAICS sector, and the third, fourth, fifth, and sixth digits designate, respectively, the NAICS subsector, industry group, and industry, and U.S. national industry (if any). Although the 1997 NAICS United States industries will now have six digits compared with four digits for 1987 U.S. SIC industries, there will not be a uniform corresponding increase in classification detail that the 1997 NAICS United States provides compared with the 1987 U.S. SIC. As explained above, the two additional digits primarily allow for more sectors and for individual country-level detailed national industries.

NAICS United States Highlights

The 1987 U.S. SIC (excluding Nonclassifiable Establishments) includes 10 divisions subdivided into 1004 4-digit industries, of which 125 are nonmanufacturing goods producing industries (agriculture, mining, construction, and electric, natural gas, and water utility industries); 459 are manufacturing industries; and 420 are service producing industries. In contrast, the 1997 NAICS United States (excluding Unclassified Establishments) has 20 sectors subdivided into 1174 5-digit and/or 6-digit industries, of which 132 are nonmanufacturing goods producing industries (agriculture, mining, construction, and electric, natural gas, and water utility industries); 473 are manufacturing industries; and 569 are service producing industries. Most of the 170 industry increase between the 1987 U.S. SIC and the 1997 NAICS United States is in the service producing industries with a net increase of 149 industries, although there are net increases of seven industries in the Agriculture, Forestry, Hunting, and Fishing sector; one in Utilities; two in Construction; and 14 in Manufacturing. There is a net decrease of three industries in Mining.

Most of the changes in the Agriculture, Forestry, Hunting, and Fishing sector and the Mining sector are the result of changes necessary to achieve comparability with

Canada and Mexico. The Utilities sector was reorganized to reflect the changing regulatory and technological structure of the industries within that sector.

The Manufacturing sector was reorganized to promote international comparability and to recognize technological changes occurring in that sector. For example, a new subsector, Computer and Electronic Product Manufacturing, was created to bring together industries producing electronic products and their components. The manufacture of computers, communications equipment, audio and video equipment, and semiconductors is grouped into the same subsector because of the inherent technological similarities of their production processes, and the likelihood that these technologies will continue to converge in the future. An important change is that the reproduction of packaged

software is placed in this sector, rather than in the services sector, because the reproduction of packaged software is a manufacturing process, and the product moves through the wholesale and retail distribution systems like any other manufactured product. NAICS acknowledges the importance of these electronic industries, their rapid growth over the past several years, and the likelihood that these industries will, in the future, become even more important in the economies of the three North American countries.

NAICS creates a new sector, Information, that groups industries that primarily create and disseminate products with intellectual property content. In addition, the NAICS Information sector brings together those activities that transform information into a commodity that is produced and distributed, and activities that provide the means for distributing those products, other than through traditional wholesale-retail distribution channels. A few of the newly revised industries in this sector include: database and directory publishers; software publishers; music publishers; paging services; cellular and other wireless telecommunications services; telecommunications resellers; and satellite telecommunications. Also included in the Information sector are newspaper, periodical, and book publishers (but not printing, which is still included in manufacturing); motion picture and sound recording industries; and libraries and archives. There are 34 industries in the Information sector, 20 of which are new.

NAICS divides the 1987 SIC Services division into eight new sectors. One of the new sectors is the Professional, Scientific and Technical Services sector, which comprises establishments engaged in activities where human capital is the major input. The industries within this sector are defined by the expertise and training of the service provider. The sector includes such industries as offices of lawyers; engineering services; environmental consulting services; advertising agencies; and translation and interpretation services. Forty-eight industries comprise this sector, 29 of which are recognized for the first time.

The new sector, Health Care and Social Assistance, recognizes the merging of the boundaries of health care and social assistance. The industries in this new sector are arranged in an order that reflects the range and extent of health care and social assistance provided. Some new industries are family planning centers, out-patient mental health and substance abuse centers, HMO medical centers, diagnostic imaging centers, continuing care retirement communities, and homes for the elderly. This sector has 39 industries, 27 of which are new.

A new sector for Arts, Entertainment, and Recreation greatly expands the number of industries provided for these services. There are 25 industries in this sector, 19 of which are new.

Another new sector is Accommodation and Foodservices that combines eating and drinking places (formerly in Retail Trade) with accommodations (formerly in the Services division). There are 15 industries in this sector, 10 of which are new. Some new industries recognized in this sector are casino hotels, bed and breakfast inns, full-service restaurants, and limited-service restaurants.

Other new sectors that were created from industries in the 1987 SIC Services division are Real Estate and Rental and Leasing that has 24 industries, 15 of which are new; Administrative and Support, Waste Management and Remediation Services that has

43 industries, 29 of which are new; Educational Services that has 17 industries, 12 of which are new; and Other Services (except Public Administration) that has 52 industries, 19 of which are new.

Product Classification System

The July 26, 1994, Federal Register notice (p. 38095) specifies that market-oriented, or demand-based groupings of economic data are required for many purposes; some of these purposes may not be well served by a production-oriented industry classification system. The ECPC committed to a program that will provide improved data for purposes that require market-oriented groupings.

The first part of that commitment was to expand the lists of commodities and services that would be available from the 1997 Economic Census. A Product Code Task Force was formed and charged with improving the basic lists of products and commodities and with constructing new detailed codes that will be compatible across U.S. statistical agencies and that will also mesh to the extent possible with international detailed commodity or product systems. In the manufacturing area, the investment goods product detail (1987 SIC major groups 35-38) has been revised to better compare to the international Harmonized System product detail. In addition, the Census Bureau and Bureau of Labor Statistics have developed a plan to provide more comparable product data from their statistical programs. In the nongoods producing industries, additional product detail has been added for certain industries, including professional, scientific, and technical services; software publishing; and communications.

The second part of the ECPC commitment was to develop a product classification system for use by all U.S. government statistical agencies in 2002. Preliminary plans are now being developed to begin the process of creating a product classification system. It is planned to develop this system in cooperation with INEGI and Statistics Canada.

OMB's Final Decisions

After taking into consideration comments submitted in response to the November 5, 1996, Federal Register notice, as well as benefits and costs, and after consultation with the ECPC, INEGI, and Statistics Canada, OMB has made the final determination of the scope and substance of NAICS United States. In general, OMB accepted the ECPC's final recommendations published in the November 5, 1996, Federal Register notice. However, in response to public comment and additional information gained in consultation with the ECPC, INEGI, and Statistics Canada, OMB made some changes to the ECPC's recommendations for NAICS United States.

OMB received 37 public responses and 6 responses from State government agencies to the November 5, 1996, Federal Register notice. Comments to OMB from these sources can be grouped into a few categories. Almost half the letters requested further changes to the NAICS United States structure, including title changes. OMB carefully considered these requests and any changes accepted are noted below. Seven of the letters specifically supported NAICS United States and thanked the ECPC for its work. Three of the letters objected to the reclassification of auxiliaries, which also is addressed below. The remainder of the letters requested clarification of industry content,

discussed detailed implementation issues, or spoke of regulatory concerns. The ECPC is currently preparing a response for each of these letters.

In response to comments and consultation, OMB has made the following determinations:

Mining - NAICS United States 213112, Support Activities for Oil and Gas Field Exploration, and 213113, Other Oil and Gas Field Support Activities, have been combined and numbered and titled, 213112, Support Activities for Oil and Gas Field Operations. Since geophysical mapping and surveying has been moved to NAICS 54136, Geophysical Survey and Mapping Services, the remaining activities in the original NAICS United States 213112, Support Activities for Oil and Gas Field Exploration, are too small to support a separate industry. Because of the above change, the following industries have been renumbered: Support Activities for Coal Mining, is now 213113; Support Activities for Metal Mining is now 213114; and Support Activities for Non-Metallic Minerals (except Fuels) is now 213115.

Manufacturing - NAICS subsector 337 Furniture and Related Product Manufacturing has been revised. The new structure changes from an emphasis on furniture manufacture by type of material, i.e., wood, metal, and other materials, to one by type of furniture, i.e., household, office and other. A separate NAICS industry also was created for kitchen cabinet and countertop manufacturing. This change better represents the way the furniture industry is structured and is consistent with the production principle on which NAICS is based. The creation of many detailed furniture manufacturing NAICS industries for the three countries was not possible, however, because the internal structure of furniture manufacturing differs from country to country. For example, the production of institutional furniture (furniture for schools, libraries, etc.) combined with the production of household furniture takes place in a significant number of establishments in one country and does not in another; similarly, the combined production of custom architectural woodwork and millwork and of office furniture takes place in a significant number of establishments in one country and does not in another.

NAICS United States 321912, Hardwood Dimension Mills, and 321913, Softwood Cut Stock, Resawing Lumber, and Planing, are combined into NAICS United States 321912, Cut Stock, Resawing Lumber, and Planing. The processes used to produce the products of these industries are the same or similar, the major difference being the use of hardwood versus softwood. Therefore, the industries are combined. NAICS United States 339117, Eyeglass and Contact Lens Manufacturing, is combined with NAICS United States 339115, Ophthalmic Goods Manufacturing. There is no production distinction between these two industries and thus they are combined.

NAICS United States 331421 has been renamed Copper Rolling, Drawing, and Extruding and NAICS United States 331422 has been renamed Copper Wire (except Mechanical) Drawing. This clarifies the fact that brass mills producing mechanical wire are included in 331421 and wire mills producing wire are classified in 331422. Other title changes in manufacturing are: 311225 is retitled Fats and Oils Refining and Blending; 325188 is retitled All Other Basic Inorganic Chemical Manufacturing; 325199 is retitled All Other Basic Organic Chemical Manufacturing; 325221 is retitled Cellulosic Organic Fiber Manufacturing; 32552 is retitled Adhesive Manufacturing; 32731 is

retitled Cement Manufacturing; 336322 is retitled Other Motor Vehicle Electrical and Electronic Equipment Manufacturing; and 339911 is retitled Jewelry (except Costume) Manufacturing.

Retail - NAICS United States 453999, All Other Miscellaneous Store Retailers (except Tobacco Stores) is renumbered to 453998. There is no change in the title.

Transportation and Warehousing - NAICS 48121, Nonscheduled Chartered Air Transportation, and NAICS 48122, Nonscheduled Specialty Air Transportation, have been combined and numbered and titled, 48121, Nonscheduled Air Transportation. Since some of the typical activities performed by establishments providing a combination of specialty air transportation or flying services overlap with establishments providing nonscheduled chartered air transportation of passengers and/or cargo, the three countries agreed to combine these establishments into one NAICS industry. The U.S. national industries within NAICS 48121, Nonscheduled Air Transportation, are as follows: NAICS United States 481211, Nonscheduled Chartered Passenger Air Transportation; NAICS United States 481212, Nonscheduled Chartered Freight Air Transportation; and NAICS United States 481219, Other Nonscheduled Air Transportation.

The following NAICS industry groups and industries are retitled: 4852 is retitled Interurban and Rural Bus Transportation; 48521 is retitled Interurban and Rural Bus Transportation; 4854 is retitled School and Employee Bus Transportation; 48541 is retitled School and Employee Bus Transportation; NAICS United States 488112 is retitled and renumbered 488119, Other Airport Operations; 49311 is retitled General Warehousing and Storage Facilities; 49312 is retitled Refrigerated Warehousing and Storage Facilities; 49313 is retitled Farm Product Warehousing and Storage Facilities; and 49319 is retitled Other Warehousing and Storage Facilities.

Finance and Insurance - NAICS 52593 has been retitled Real Estate Investment Trusts.

Professional, Scientific, and Technical Services - NAICS United States 541199 has been retitled All Other Legal Services; NAICS 54143 has been retitled Graphic Design Services; and 54182 has been retitled Public Relations Agencies.

Management of Companies and Enterprises - NAICS United States 551113 has been renumbered 551114, Corporate, Subsidiary and Regional Managing Offices.

Administrative and Support Services - NAICS United States 561431 has been renumbered and retitled 561439, Other Business Service Centers (including Copy Shops) and NAICS United States 561432 has been renumbered 561431, Private Mail Centers.

Accommodation and Foodservices - NAICS 72233 has been retitled Mobile Foodservices.

Other Services (except Public Administration) - NAICS United States 811121 has been retitled Automotive Body, Paint, and Interior Repair and Maintenance and NAICS industry group 8122 has been retitled Death Care Services.

Auxiliaries - Three private sector commentators and one State agency objected to classifying auxiliary establishments (those establishments that primarily produce support services not intended for use outside the enterprise) based on their primary activity rather than maintaining the historic SIC treatment of classifying auxiliary establishments based on the industry classification of the establishments they primarily serve. Two State government agencies supported the change. Those who objected acknowledge that there

are problems associated with the 1987 SIC classification of auxiliaries, but are concerned about the loss of employment in manufacturing industries if auxiliary establishments such as accounting offices, administrative and corporate offices, and warehouses are classified according to their primary activity.

NAICS, however, is based on the economic principle that establishments should be grouped together based on their production processes, i.e., units that use identical or similar production processes in producing a good or service should be grouped together. For example, classifying a data processing services establishment of an automobile producer that performs services for its automobile assembly plants in the automobile industry violates that principle. The data processing center's production process is much more like that of establishments in NAICS 51421, Data Processing Services, than those establishments in NAICS United States 336111, Automobile Manufacturing.

In addition, more and more of these auxiliary establishments are selling their services to establishments outside their enterprise. For example, the 1992 Economic Censuses reported that auxiliary establishments had more than \$142 billion in outside sales, more than doubling the \$64 billion reported in 1987. These sales are not reflected in the industries in which they occur, but rather in the industries that the auxiliary establishment primarily serves, thereby understating the receipts of many service industries. Therefore, NAICS will classify auxiliary establishments based on their primary activity.

To address the concern about the apparent loss of manufacturing employment, the Census Bureau will code auxiliary establishments for the 1997 Economic Censuses both by primary activity and by the industry of the establishments they primarily serve, thereby providing a link between the 1992 and 1997 data.

NAICS United States Implementation

The NAICS United States replacement of the SIC is effective January 1, 1997. The first data to be available on a NAICS United States basis will be from the 1997 Economic Censuses to be published in early 1999. For most programs, data will be introduced over several years. Data series may not always be revised for years before the respective program's implementation of NAICS United States.

INEGI, OMB, and Statistics Canada have put in place a process for ensuring that the implementation of NAICS is comparable across all three countries. Regularly scheduled meetings among the three countries will ensure that there is a smooth transition to NAICS in all three countries. In addition, the three countries plan to continually review and update NAICS to ensure that new activities are promptly recognized and to extend NAICS to the 5-digit industry level in those sectors where agreement is now at only the sector, subsector, or industry group level.

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, the full impact of the revision can be assessed. Data producers then may measure the reallocation of the data at aggregate industry levels and develop a concordance between the new and old series for that given point in time. The concordance creates a crosswalk between the old and new classification systems. This link between the 1987 U.S. SIC and the 1997 NAICS United States will be developed by the statistical agencies in the U.S.

NAICS Nonstatistical Use

NAICS was designed, as was the SIC before it, solely for statistical purposes. Although it is expected that NAICS, like the SIC, will also be used for various nonstatistical purposes (e.g., administrative, regulatory, or taxation), the requirements of government agencies that use it for nonstatistical purposes have played no role in its development.

Consequently, as has been the case with the SIC (Statistical Policy Directive No. 8, Standard Industrial Classification of Establishments), NAICS shall not be used in any administrative, regulatory, or tax program unless the head of the agency administering that program has first determined that the use of such industry definitions is appropriate to the implementation of the program's objectives. If the terms, "North American Industry Classification System," "NAICS," or "NAICS United States" are to be used in the operative text of any law or regulation to define industry (or trade or commerce), language similar to the following should be used to assure sufficient flexibility: "An industry or grouping of industries shall mean a North American Industry Classification System industry or grouping of industries as defined by the Office of Management and Budget subject to such modifications with respect to individual industries or groupings of industries as the Secretary (Administrator) may determine to be appropriate for the purpose of this Act (regulation)."

1997 NAICS United States Industry Structure and Relationship to 1987 SIC

Table 1 below presents the final decisions for the entire structure of the 1997 NAICS United States classification system including both 5-digit NAICS and 6-digit NAICS United States national detail industries. It shows the hierarchy and the coding system in 1997 NAICS United States sequence; it also relates the 1997 NAICS United States to the 1987 U.S. SIC.

Table 2 is in 1987 U.S. SIC sequence and relates the 1987 U.S. SIC industries to the 1997 NAICS United States including the 6-digit U.S. national detail industries. All OMB final changes to the structure of the 1997 NAICS United States based on public comment and consultation with the ECPC, INEGI, and Statistics Canada are included in Tables 1 and 2.