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North American Industry Classification System; Revision for 2012; Notice

OFFICE OF MANAGEMENT AND BUDGET
North American Industry Classification System; Revision for 2012

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

ACTION: Notice of NAICS 2012 Final decisions.

SUMMARY: The North American Industry Classification System (NAICS) is a system for classifying establishments (individual business locations) by type of economic activity. Mexico's Instituto Nacional de Estadística y Geografía (INEGI), Statistics Canada, and the United States Office of Management and Budget (OMB), through its Economic Classification Policy Committee (ECPC), collaborate on NAICS to make the industry statistics produced by the three countries comparable. Under 31 U.S.C. 1104(d) and 44 U.S.C. 3504(e), the Office of Management and Budget is announcing its final decisions for adoption of NAICS revisions for 2012 as recommended by the Economic Classification Policy Committee in OMB's notice for solicitation of comments published in Part IV of the May 12, 2010, **Federal Register** (75 FR 26856–26869). In the May 12, 2010, notice, OMB's ECPC recommended classification guidance for distribution centers, logistics service providers, sales offices of publishers, and units that outsource physical transformation activities. The ECPC also provided a list of recommended changes to the utilities, construction, manufacturing, wholesale trade, retail trade, and food services and accommodations sectors of NAICS United States for 2012. In response to public comments received on the recommendations, the ECPC withdrew the proposal to split the semiconductor industry into two new industries and OMB is modifying two additional ECPC recommendations to better align with the public comments. More details on these decisions are presented in the **SUPPLEMENTARY INFORMATION** section below.

DATES: *Effective Date:* Federal statistical establishment data published for reference years beginning on or after January 1, 2012, should be published using the 2012 NAICS United States codes. Publication of a 2012 NAICS United States Manual or supplement is planned for January 2012.

ADDRESSES: You should send correspondence about the adoption and implementation of the 2012 NAICS as shown in the May 12, 2010, **Federal Register** notice, and modified by

Attachments 1 and 2 of this 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. Comments submitted in response to this notice may be made available to the public through relevant Web sites. For this reason, please do not include in your comments information of a confidential nature, such as sensitive personal information or proprietary information. If you send an e-mail comment, your e-mail address will be automatically captured and included as part of the comment that is placed in the public docket. Please note that responses to this public comment request containing any routine notice about the confidentiality of the communication will be treated as public comments that may be made available to the public notwithstanding the inclusion of the routine notice. You may send comments via e-mail to *naics@omb.eop.gov* with subject NAICS12. Because of delays in the receipt of regular mail related to security screening, respondents are encouraged to use electronic communications.

You should address inquiries about the content of industries or requests for electronic copies of the 2012 NAICS tables to: John B. Murphy, Assistant Division Chief for Classification Activities, Service Sector Statistics Division, Bureau of the Census, Room 8K157, Washington, DC 20233, *telephone number:* (301) 763–5172, *FAX number:* (301) 763–8636, or by *e-mail:* *John.Burns.Murphy@census.gov*.

Electronic Availability and Comments:

This document and the May 12, 2010, **Federal Register** notice are available on the Census Bureau's Web site at *http://www.census.gov/naics*. The revision for 2012 will result in a number of code and title changes for NAICS. For that reason, a full list of NAICS 2012 industry codes and titles will be posted on the web site prior to publication of the NAICS *United States, 2012 Manual* for reference and implementation planning. This WWW page also 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* with subject NAICS12, *telephone number:* (202) 395–3095, *FAX number:* (202) 395–7245. Because of delays in the receipt of regular mail related to security screening, respondents are

encouraged to use electronic communications.

SUPPLEMENTARY INFORMATION: NAICS was jointly developed by Canada, Mexico, and the United States for the 1997 NAICS. For the 2012 revision, the three countries focused on refining the structure of the manufacturing sector and providing additional classification guidance in response to observed changes in the economies of each country.

The May 12, 2010, **Federal Register** notice: (1) Summarized the background for the proposed revisions to NAICS 2012 in Part I; (2) contained a summary of public comments to the first **Federal Register** notice (74 FR 764–768, January 7, 2009) for the 2012 NAICS revision process in Part II; (3) detailed the structure changes recommended by the ECPC in Part III; and (4) provided a comprehensive listing of changes for national industries and their links to NAICS 2007 industries in Part IV.

In response to the ECPC recommendations in the May 12, 2010, **Federal Register**, the Semiconductor Industry Association (SIA) expressed opposition to the recommended split of NAICS 334413, Semiconductor and Related Device Manufacturing. The ECPC withdrew the recommended split based on those comments. The Semiconductor and Related Device Manufacturing industry will remain unchanged for NAICS 2012.

OMB will modify two additional ECPC recommendations as published in the May 12, 2010, **Federal Register** based on comments from the public. The first modification is for the structure but not the content of the ECPC recommendation for the printing industries. The following industries for printing will be used in NAICS United States, 2012: 323111, Commercial Printing (except Screen and Book); 323113, Screen Printing; and 323117, Book Printing. The second modification is to the structure and content of the industries for nonferrous foundries. OMB will retain NAICS 331524, Aluminum Foundries (except Die-Casting) and will create a residual industry, 331529 for Other Nonferrous Metal Foundries (except Die-Casting).

Two final changes are the correction of typographical errors in Tables 1 and 2 of the May 12, 2010, **Federal Register** notice. In Table 1, NAICS 2007 industry 443111, Household Appliance Stores is being recoded to NAICS 2012 443141, Household Appliance Stores with no change in content. The May 12, 2010, **Federal Register** incorrectly included a "pt." indicator on that recoded industry. In Table 2, the titles for the 4-digit and

5-digit Restaurants and Other Eating Places were incorrectly listed as 7225 Restaurants and 72251 Restaurants. In fact, the titles should be 7225 Restaurants and Other Eating Places, and 72251 Restaurants and Other Eating Places. Each of these changes from the May 12, 2010, **Federal Register** is shown in the corresponding Table 1 or 2 at the end of this notice.

Factoryless Goods Producers

Recent years have witnessed the rapid and widespread incorporation of specialization into goods manufacturing as global competition has motivated producers to seek more efficient production methods. This has resulted in outsourcing manufacturing transformation activities (i.e., the actual physical, chemical or mechanical transformation of inputs into new outputs) to specialized establishments, both foreign and domestic. Such outsourcing can lead to inconsistent classification of business establishments in official statistics when the standard classification systems used by those programs do not provide sufficient guidance.

NAICS 2007 does not provide clear guidance on classification of units that control the entire process but subcontract out all manufacturing transformation activities. To address this shortcoming, the ECPC chartered a subcommittee to study the issue and provide classification guidance that will result in consistent classification of outsourcing establishments and comparable data for these outsourcing establishments across various statistical programs. The work involved defining the types of outsourcing units that exist and that require classification guidance, examining alternative classification schemes, and identifying their effects on existing economic statistics. As a result of this research, the ECPC decided to recommend classification of establishments that bear the overall responsibility and risk for bringing together all processes necessary for the production of a good in the manufacturing sector, even if the actual transformation is 100 percent outsourced.

OMB recognizes that, from a conceptual standpoint, at the most aggregate level, goods producers arrange for and bring together all of the factors of production necessary to produce a good. Goods producers accept the entrepreneurial risk of producing and bringing goods to market. When individual steps in the complete process are outsourced, an establishment should remain classified in the manufacturing sector. Accordingly, OMB has accepted

the ECPC recommendation that factoryless goods producers (FGPs) be classified in manufacturing.

Data users should note that the classification of establishments that outsource manufacturing transformation in the Manufacturing Sector of NAICS 2012 affects multiple agencies and programs within those agencies. OMB recognizes that, as with any new concept, there will likely be some differences in interpretation across agencies during the implementation process, and that differences in interpretation may lead to data inconsistencies. To address this challenge, OMB fostered the formation of a multi-agency subgroup of the ECPC to ensure consistent implementation of this clarification to the manufacturing sector of NAICS 2012. The implementation group includes members from various program offices in the Bureau of Economic Analysis, the Bureau of Labor Statistics, and the Census Bureau.

It is important to both statistical agencies and other data users to be able to distinguish between definitional and economic changes so that they can create continuous time series and accurately analyze data changes over time. The inclusion of revenues from FGP activities in manufacturing will effectively change the traditional definition of manufacturing, and is expected to affect statistical estimates at the national, State and regional levels. This includes statistical outputs such as the value of shipments for manufacturing industries, value of sales for wholesale trade industries, product data, material costs and other expenses, price indexes, labor and multifactor productivity series, and the national accounts. The definitional clarification will be particularly important for industries that are characterized by significant amounts of manufacturing transformation outsourcing as indicated in the examples below.

The following paragraphs present a partial list of the statistics that will be affected by the classification guidance for establishments that outsource transformation activities.

Bureau of Labor Statistics Producer Price Index Program (PPI)

For lower level price indexes where the PPI does not currently price products that are produced using foreign contractors, products will be moved from wholesale trade with margin prices to manufacturing with product prices. For these products, the PPI will be able to reflect price changes when an establishment begins to outsource some of its production.

The PPI uses Economic Census data to calculate weights for its aggregation structures. As a result, the price movements for products and industries with significant FGP activity will increase in relative importance and represent a greater share of aggregate price index movement.

Bureau of Labor Statistics Major Sector Productivity and Industry Productivity

Manufacturing and wholesale trade industry outputs and inputs (quantity, cost) will be affected by the shift of establishments identified as FGPs from wholesale trade to manufacturing. This will affect both labor productivity and multifactor productivity measures. These changes will require a transitional adjustment (bridge) to exclude production that occurs in a foreign country for historical consistency in time series.

Bureau of Labor Statistics Quarterly Census of Employment and Wages

The classification of FGP establishments in manufacturing will potentially shift monthly employment, total quarterly wages, and the number of establishments from other NAICS sectors into the manufacturing sector.

Bureau of Economic Analysis Industry Accounts

In the Bureau of Economic Analysis (BEA) industry accounts, gross output for the manufacturing sector will be higher because FGP output will move from the wholesale trade sector to the manufacturing sector. Theoretically, the combined manufacturing and wholesale trade value added would remain unchanged. However, because shipments of FGPs that own their material inputs are currently not included in the Census manufacturing data and are instead classified to the wholesale trade industry, BEA is most likely not capturing all output or value added for these specific establishments. The classification of FGPs in manufacturing will capture these "missed" shipments and value added will be affected accordingly.

Bureau of Economic Analysis International Area

BEA's international area uses NAICS-based classifications to publish enterprise statistics for multi-national companies (MNCs) by industry. NAICS is used to publish statistics on MNC research and development and on foreign-owned U.S. establishments from links of BEA and Census Bureau data. The international guidelines recommend ownership of the material inputs at the time of processing as the

key to determining whether cross-border manufacturing services occur. It is important to exclude any foreign production from GDP.

Bureau of Economic Analysis National Income and Product Accounts (NIPA)

BEA's NIPA accounts benchmark their data to the Input-Output table every five years (I-O based on Economic Census data). A commodity-flow method is used in deriving many NIPA categories, such as investment in equipment. Classifying FGPs in manufacturing has the potential to significantly affect these estimates, especially if the trade flows are not appropriately accounted for. A fully consistent and integrated set of national and international accounts is important to avoid measurement inconsistencies.

Bureau of Economic Analysis Regional Accounts

It is important that the output of FGPs and manufacturing service providers (MSPs) be recorded in the State (or Metropolitan Area) where the transformational activity takes place. An implementation that assigns this output to a headquarters location geographically separate from the location of activity will not be ideal.

Census Bureau Economic Programs

The classification of FGPs to manufacturing will affect a wide range of statistical outputs from the Census Bureau including industry statistics from the Economic Census; Annual and Monthly Wholesale Trade Surveys; the Annual Survey of Manufacturers;

Monthly Manufacturers' Inventories, Shipments, and Orders (M3); Manufacturing and Energy Consumption Survey (MECS); County Business Patterns (CBP); Quarterly Survey of Plant Capacity Utilization (QPC); Annual Capital Expenditures Survey (ACES); Business R&D and Innovation Survey (BRDIS); Business Expense Survey (BES); Quarterly Financial Report (QFR); and other series that are published using NAICS. The level of impact will vary based on the intensity of outsourcing.

OMB understands the considerable cost and lead time required to implement this decision. The ECPC will continue the multi-agency subgroup and re-charter the subgroup to plan and oversee the implementation of this decision in a coordinated fashion that will keep definitions comparable across programs to the extent possible. OMB also acknowledges that this conceptual clarification will take time to implement consistently using statistically sound methods. The decision to classify factoryless goods producers in manufacturing will be mentioned in the *NAICS United States 2012 Manual*. Statistical programs are expected to begin the work of implementing this change as soon as possible, and to the extent possible apply the implementation to data releases as data collection and processing system changes allow, but beginning no later than 2017. In the interim, statistical agencies should undertake outreach prior to implementation, and include a clear statement for data users when the

change is implemented. Users will find information about the plans and progress on implementation at <http://www.census.gov/naics>.

Final Decisions

After taking into consideration other comments submitted in direct response to the May 12, 2010, **Federal Register** notice, as well as benefits and costs, and after consultation with the Economic Classification Policy Committee, Mexico's Instituto Nacional de Estadística y Geografía (INEGI) and Statistics Canada, OMB made no other changes to the scope and substance of the ECPC's recommendations outlined in the May 12, 2010, **Federal Register** notice. The other comments that were received supported proposed changes, suggested changes that would be incompatible with the production-based foundation of NAICS such as proposals for modeling and simulation industries, or suggested changes that would be incompatible with proposals that were accepted.

OMB's final decisions regarding revision of NAICS for 2012 are to adopt the proposals contained in the May 12, 2010, **Federal Register**, with the changes detailed in the preceding paragraphs. Attachments 1 and 2 below show the corrections for Tables 1 and 2 in the May 12, 2010, **Federal Register** notice based on these changes.

Cass R. Sunstein,
Administrator, Office of Information and Regulatory Affairs.

Attachment 1

TABLE 1—2007 NAICS UNITED STATES MATCHED TO 2012 NAICS UNITED STATES

2007 NAICS code	2007 NAICS description	Status code	2012 NAICS code	2012 NAICS description
323110	Commercial Lithographic Printing	pt	323111	Commercial Printing (except Screen and Books).
323111	Commercial Gravure Printing	pt	323111	Commercial Printing (except Screen and Books).
323112	Commercial Flexographic Printing	pt	323111	Commercial Printing (except Screen and Books).
323114	Quick Printing	pt	323111	Commercial Printing (except Screen and Books).
323115	Digital Printing	pt	323111	Commercial Printing (except Screen and Books).
323116	Manifold Business Forms Printing	pt	323111	Commercial Printing (except Screen and Books).
323118	Blankbook, Looseleaf Binders, and Devices Manufacturing.	pt	323111	Commercial Printing (except Screen and Books).
323119	Other Commercial Printing	pt	323111	Commercial Printing (except Screen and Books).
331524	Aluminum Foundries (except Die-Casting) .....	.....	331524	Aluminum Foundries (except Die-Casting).
331525	Copper Foundries (except Die-Casting)	pt	331529	Other Nonferrous Metal Foundries (except Die-Casting).
331528	Other Nonferrous Foundries (except Die-Casting)	pt	331529	Other Nonferrous Metal Foundries (except Die-Casting).
334413	Semiconductor and Related Device Manufacturing	.....	334413	Semiconductor and Related Device Manufacturing.
443111	Household Appliance Stores .....	.....	443141	Household Appliance Stores.

pt.—Part of 2012 NAICS United States industry.

Attachment 2

TABLE 2—2012 NAICS UNITED STATES MATCHED TO 2007 NAICS UNITED STATES

2012 NAICS code	2012 NAICS description	Status code	2007 NAICS code	2007 NAICS description
323111	Commercial Printing (except Screen and Books) ...	R	323110 323111 323112 323114 323115 323116 323118 323119	Commercial Lithographic Printing Commercial Gravure Printing. Commercial Flexographic Printing. Quick Printing. Digital Printing. Manifold Business Forms Printing. Blankbook, Looseleaf Binders, and Devices Manufacturing. Other Commercial Printing.
331524	Aluminum Foundries (except Die-Casting) .....	.....	331524	Aluminum Foundries (except Die-Casting).
331529	Other Nonferrous Metal Foundries (except Die-Casting).	N	331525	Copper Foundries (except Die-Casting)
334413	Semiconductor and Related Device Manufacturing	.....	331528	Other Nonferrous Foundries (except Die-Casting).
7225	Restaurants and Other Eating Places		334413	Semiconductor and Related Device Manufacturing.
72251	Restaurants and Other Eating Places			

R—2007 NAICS industry code reused with different content; N—new NAICS industry for 2012.

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