



## An Explanation of the North American Industry Classification System (NAICS) What this means for Labor Market Information Customers

### Introduction

The Office of Management and Budget (OMB) in cooperation with agencies from Mexico and Canada has developed an industry classification system called the North American Industry Classification System (NAICS pronounced “nakes”) that replaced the Standard Industrial Classification (SIC) system. While work has been underway since 1993, OMB formally adopted NAICS on January 16, 2001.

### History of Process

Office of Management and Budget established the Economic Classification Policy Committee in 1992 to pursue a fresh slate examination of economic classifications for statistical purposes. Since 1939 the U.S. has been using the Standard Industrial Classification (SIC) system. While SIC had undergone periodic revisions, the last one in 1987, rapid changes in the U.S. and world economies brought SIC under increased scrutiny. In response to the need for a classification system that better reflected the dynamic nature of economies, OMB established the Economic Classification Policy Committee.<sup>2</sup> Government agencies from the United States, Mexico and Canada<sup>3</sup> were tasked with the development of a system that accounted for rapid changes in the U.S and world economies.

### Industrial Classification vs. Occupational Classification

NAICS is a system concerned with classifying organizations into different **industries**; as opposed to classification at the **occupational** level. The newly revised Standard Occupational Classification (SOC) system classifies occupations by job duties. Occupations specific to certain industries may be found in a different industry category because of the shift to NAICS, yet the Standard Occupational Classification Code remains the same. Systems like ONET and other classification systems based on SOC are not subject to changes because of the shift to NAICS. Professionals who use information at the occupational level will not notice changes in job categories as a result of the shift to NAICS, unless they are looking at occupations by industry.

### Benefits

**Comparable** — NAICS is organized in such a way so as to allow direct comparison of economic data with our NAFTA trading partners Canada and Mexico.

**Relevant** — NAICS recognizes hundreds of new businesses in the economy with 20 broad industry sectors, up from SIC’s 10. Some new industry categories include an Information Sector and a Health Care and Social Assistance Sector formerly lumped into Services under SIC.

**Consistent** — NAICS classifies an organization based on how it produces something, not simply what it produces. Businesses that use identical or similar technologies and processes to produce something will be grouped together. For example, software creation falls under the new Information sector, while software duplication falls under Manufacturing. Under SIC both enterprises were grouped under the same major industry sector, because both were engaged in production of software.

**Adaptable** — Regular updates account for emerging industries not currently known.

### Things to Consider

The shift to NAICS means a break in historical time series. SIC and NAICS industry groupings are not directly comparable since the code changes for NAICS have split some SIC groups.

<sup>1</sup>Executive Office of the President Office of Management and Budget. *North American Industry Classification System*. White Plains, MD: Bernan and U.S. Department of Commerce, 2002

<sup>2</sup>ECPC is 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

<sup>3</sup>Specifically, Mexico's Instituto Nacional de Estadística, Geografía e Informática (INEGI) and Statistics Canada

## New Industries Reflected in NAICS

- ◆ NAICS heralds the creation of a new information sector that pulls businesses from communications, publishing, motion picture and sound recording and online services to recognize an information-based economy.
- ◆ Formerly, under SIC corporate headquarters were not distinguished from the industry category of the product or service they produced. Now corporate headquarters are recognized in the new Management Sector.
- ◆ Manufacturing is restructured to account for high-tech industries.
- ◆ An increase in the amount of detail overall accompanies the shift to NAICS including a further breakdown of SIC's services sector into nine new sectors.
- ◆ Eating and drinking places move out of Retail Trade into a new category called Accommodation and Food Services.
- ◆ The difference between Retail and Wholesale is now based on how each store conducts business. For example, many computer stores are reclassified from Wholesale to Retail.

## Comparison of NAICS and SIC major industry groups

Below is a chart that outlines the difference between NAICS and SIC industry categories.

SIC Standard Industrial Classification	NAICS North American Industrial Classification System
Agriculture, Forestry, and Fishing	Agriculture, Forestry, Fishing, and Hunting
Mining	Mining
Construction	Construction
Manufacturing	Manufacturing
Transportation, Communications and Public Utilities	Utilities Transportation and Warehousing
Wholesale Trade	Wholesale Trade
Retail Trade	Retail Trade Accommodation and Food Services
Finance, Insurance, and Real Estate	Finance and Insurance Real Estate and Rental and Leasing
Services	Information Professional, Scientific, and Technical Services Administrative Support; Waste Management and Remediation Services Educational Services Health Care and Social Assistance Arts, Entertainment, and Recreation Other Services (except Public Administration)
Public Administration (parts of all divisions)	Public Administration Management of Companies and Enterprises

U.S. Bureau of the Census, U.S. Department of Commerce

## Impact on Labor Market Information Products

While everything produced by Colorado Department of Labor and Employment's Labor Market Information unit has been impacted by the shift to NAICS, the effect to the end user of LMI products varies.

**Job Vacancy Survey** Employers in the survey sample will be classified under NAICS. The Job Vacancy Survey will report vacancies by industry using the new system. The Table of JVS Occupations with Occupational Employment Statistics Wages, Vacancies by Major Occupational Groups, and Wages by Major Occupational Group will stay the same. Upper Arkansas will be the first job vacancy survey published using NAICS in 2003.

**ES-202/Covered Employment and Wages** First quarter of 2001 through Second quarter 2002 has been published using NAICS, and is available to you as of December 2002. Five quarters worth of data were collected using both NAICS and SIC (first quarter 2001 to first quarter 2002). First quarter 2002 is the last quarter Covered Employment and Wages is reported using only SIC.

**Current Employment Statistics/Non-Agricultural Wage and Salary Employment** January data for the monthly survey of businesses were collected according to NAICS. January numbers will be available in March 2003. National Current Employment Statistics data dating back to 1990 is being reconstructed based on the new NAICS system and is scheduled to be released by the BLS in 2003.

**Occupational Employment Outlook/Occupational Projections** covering the years 2002-2012 will be published using NAICS. National projections will be available in November 2003. State projections will be available July 2004.

**Occupational Employment Statistics (OES)/Wage Survey** While employers in the OES sample are sorted and drawn according to NAICS, the survey will continue to publish wages by occupation according to the Standard Occupational Classification system. The OES survey has been using the SOC occupations since 1999.

The survey sample for the year 2001 was drawn based on the SIC. Wage information for the 2001 survey will be available January 2003.

November 2002 marks the shift to collecting wage information two times a year (November and May) rather than the previous one time per year. The survey sample for November 2002 was drawn based on NAICS industry classifications. Wage data collected for November 2002 will be available August or September 2003. Combined results of both November 2002 and May 2003 will be available January 2004.

Occupations by industry for Colorado are available by request, and will reflect NAICS industry classifications by the August 2003 release of November 2002 data.

**Local Area Unemployment Statistics/Unemployment Rate** are not impacted by the shift to NAICS.

**Here's how one  
Colorado internet  
company uses NAICS:**

*"Our investors wanted to see diversification in our customer base. We used NAICS to track our customer base by industry. It really helped us on Wall Street."*

BILL OWENS  
Governor

JEFFREY M. WELLS  
Executive Director

ALEXANDRA E. HALL  
LMI Director

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### **Additional Resources**

**Executive Office of the President Office of Management and Budget**  
*North American Industry Classification System*  
White Plains, MD: Bernan and U.S. Department of Commerce, 2002

**Labor Market and Demographics Analysis Unit**  
*North American Industry Classification System Desk Aid*  
Richmond, VA. Virginia Employment Commission, 2002  
To order a copy call 804.786.8223

**Bureau of the Census, U.S. Department of Commerce Website:**  
<http://www.census.gov/epcd/www/naics.html>

**Bureau of Labor Statistics, U.S. Department of Labor Website:**  
<http://www.bls.gov/bls/naics.htm>