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OFFICE OF MANAGEMENT AND BUDGET

2012 North American Industry Classification System (NAICS) – Updates for 2017

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

Action: Notice of Solicitation for Proposals to Revise Portions of NAICS for 2017.

Summary: Under the authority of the Budget and Accounting Procedures Act of 1950 (31 U.S.C. 1104(d)) and the Paperwork Reduction Act of 1995 (44 U.S.C. 3504(e)), the Office of Management and Budget (OMB), through its Economic Classification Policy Committee (ECPC), is soliciting proposals from the public for changes to the structure and content of the North American Industry Classification System (NAICS) for inclusion in a potential 2017 revision. There are six parts in the **Supplementary Information** section below. Part I provides background on NAICS. Part II includes a solicitation of proposals for new and emerging industries. Part III solicits public comments on electronic dissemination of the potential revision of NAICS for 2017. Part IV solicits public comments on updating the structure of the oil and gas industries in NAICS 2012. Part V provides an update on the classification of manufacturing units that outsource. Part VI presents notification of a method to publicize corrections for errors and omissions that are identified in NAICS.

In soliciting comments about revising NAICS, the ECPC does not intend to open the entire classification for substantial change in 2017. The ECPC will consider public comments and proposals for changes or modifications that advance the goals of NAICS as outlined in Part I of the **Supplementary Information** section below. The ECPC is also seeking and will consider comments related to consistent classification in an era of greater specialization and globalization.

Dates: To ensure consideration of your comments or proposals related to the potential revision of NAICS for 2017 as detailed in this notice, comments must be in writing and received no later than July 21, 2014. Please be aware of delays in mail processing at Federal facilities due to tightened security. Respondents are encouraged to send both a hard copy and a second copy via fax or e-mail (discussed in Addresses below).

Addresses: Correspondence concerning the ECPC's intent to review and possibly revise NAICS for 2017, comments on the business organization clarifications, and all proposals for new industries in NAICS for 2017 should be sent to John Murphy, Chair, Economic Classification Policy Committee, Census Bureau, Room 8K157, Washington, DC 20233-6500. Because of delays in the receipt of regular mail related to security screening, respondents are encouraged to also submit comments by e-mail to John.Burns.Murphy@census.gov or by fax at (301) 763-8744. Mr. Murphy can be reached at (301) 763-5172.

Comments may also be sent via <http://www.regulations.gov> - a Federal E-Government Web site that allows the public to find, review, and submit comments on documents that agencies have published in the **Federal Register** and that are open for comment. Simply type “NAICS for 2017” (in quotes) in the Rules, Comments, Adjudications or Supporting Documents search box, click Search, click Comment Now!, and follow the instructions for submitting comments.

All comments regarding this notice received via the Web site, e-mail, fax, hardcopy, or other means, are part of the public record as submitted. For this reason, 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.

Please consider including contact information and a phone number or e-mail address with your comments to facilitate follow-up if necessary.

Electronic Availability: This document is available on the Census Bureau Web site at <http://www.census.gov/naics>. This site contains previous NAICS United States **Federal**

Register notices, ECPC Issues Papers, ECPC Reports, the structure and industry definitions for NAICS United States 2012, 2007, 2002, and 1997, and related documents.

Public Review Procedure: All comments and proposals received in response to this notice will be available for public inspection at the Census Bureau, Suitland, Maryland. Please telephone the Census Bureau at (301) 763-5172 to make an appointment to enter the Federal Center. OMB will publish all ECPC recommendations for changes to NAICS for 2017 resulting from this notice in the **Federal Register** for review and comment prior to final action.

For Further Information Contact: John Murphy, Chair, Economic Classification Policy Committee, Census Bureau, Room 8K157, Washington, DC 20233-6500. Mr. Murphy can be reached at (301) 763-5172, by fax at (301)763-8744, or by e-mail at John.Burns.Murphy@census.gov.

Supplementary Information:

The **Supplementary Information** section of this notice is divided into six parts. Part I provides background on NAICS; Part II includes a solicitation for proposals for new and emerging industries; Part III requests public input on electronic-only dissemination of the potential revision of NAICS for 2017; Part IV requests public input on updating the structure of the oil and gas industries; Part V provides an update on the classification of units that outsource manufacturing transformation activities; and Part VI notifies the

public of the location where corrections of identified errors or omissions in NAICS will be publicized.

Part I. Background of NAICS

NAICS is a system for classifying establishments (individual business locations) 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 North American economy. Federal statistical agencies use NAICS to 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 y Geografía* (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 changes in technology and in the growth and diversification of services in recent decades. Industry statistics presented using NAICS 2012 are comparable, to a large extent, with statistics compiled according

to the latest revision of the United Nations' International Standard Industrial Classification (ISIC, Revision 4).

For these 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. Please note that NAICS is designed and maintained solely for statistical purposes to improve and keep current this Federal statistical standard. Consequently, although the classification may also be used for various nonstatistical purposes (e.g., for administrative, regulatory, or taxation functions), the requirements of government agencies or private users that choose to use NAICS for nonstatistical purposes play no role in its development or revision.

The four principles that guided the initial development of NAICS were:

(1) 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.

(2) 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.

(3) Time series continuity is maintained to the extent possible.

(4) 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. 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.
Subsector	3-digit	Subsectors represent the next, more detailed level of aggregation. There are 99 subsectors in NAICS.
Industry Group	4-digit	Industry groups are more detailed than subsectors. There are 312 industry groups in NAICS 2012.
NAICS Industry	5-digit	NAICS industries, in most cases, represent the lowest level of three-country comparability. There are 713 five-digit industries in NAICS 2012.
National Industry	6-digit	National industries are the most detailed level

and represent the national level detail. There are 1,065 national industries in NAICS United States 2012.

The implementation of the first vintage of NAICS – NAICS 1997 – affected almost half of the industries that were available for use under the 1987 Standard Industrial Classification (SIC). OMB’s final decisions for the adoption of NAICS for the United States were published in the **Federal Register** on April 9, 1997 (62 FR 17288-17337). Subsequent NAICS revisions in 2002, 2007, and 2012 were more modest. Complete details of those revisions were published in the **Federal Register**. Revisions for 2002 were published on April 20, 2000 (65 FR 21242-21282), revisions for 2007 were published on March 16, 2006 (71 FR 28532-28533), and revisions for 2012 were published on August 17, 2011 (76 FR 51240-51243).

The development of NAICS represented a significant improvement over the previous industry classification systems used in North America. To ensure the accuracy, timeliness, and relevance of the classification, NAICS is reviewed every five years to determine what, if any, changes are required. The ECPC recognizes the costs involved when implementing industry classification revisions in statistical programs and the costs for data users when there are disruptions in the availability of data. The ECPC also recognizes the economic, statistical, and policy implications that arise when the industry classification system does not identify and account for important economic developments. Balancing the costs of change against the potential for more accurate and

relevant economic statistics requires significant input from data producers, data providers, and data users.

Part II. New and Emerging Industries

NAICS was developed to be a dynamic industry classification. Every five years, the classification is reviewed to determine the need to identify new and emerging industries. The ECPC is soliciting public comments on the advisability of revising NAICS for new and emerging industries in 2017 and soliciting proposals for these new industries.

When developing proposals for new and emerging industries, please note that there are two separate economic classification initiatives underway in the United States. NAICS, the industry classification, is the subject of this notice, while the complementary North American Product Classification System (NAPCS) initiative is currently in development. The NAPCS product system described below will complement the NAICS industry system and provide an alternate way of classifying output.

NAICS was developed to classify units according to their production function. NAICS results in industries that group units undertaking similar activities using similar resources but does not necessarily group all similar products or outputs. NAPCS is being developed to classify the outputs of units, or in other words their products or transactions, within a demand-based conceptual framework. For example, the hypothetical product of a flu shot can be provided by a doctor's office, a hospital, or a walk-in clinic. Because

these three units are classified to three different NAICS industries, data users who want information about all flu shots provided must be able to identify the individual products coming out of the units, which NAPCS is designed to do. Thus, in many cases, the need for specific statistical data can be met by aggregating product data across industries rather than by creating a new industry. This is particularly true with NAICS, which groups establishments into industries based on their primary production function. Proposals for new industries in NAICS for 2017 will be evaluated within the context of the industry classification system to determine the most appropriate resolution. For a detailed description of the NAPCS initiative, see the April 16, 1999, **Federal Register** notice (64 FR 18984-18989) available at <http://www.census.gov/napcs>.

Proposals for new industries will be evaluated using a variety of criteria. As previously mentioned, each proposal will be evaluated based on the application of the production function concept, its impact on comparability within North America and with other regions, and its impact on time series. For any proposals that cross three-country levels of agreement, negotiations with Canada and Mexico, our partners in NAICS, will also influence the ECPC's recommendations on those proposals. In addition, other criteria may affect recommendations for adoption. From a practical standpoint, industries must be of appropriate size. At the national level, this is generally not a major concern but there are a variety of statistical programs that produce industry data at the regional, State, metropolitan area, or even county or local level. Proposed industries must include a sufficient number of establishments 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. Proposed changes must be such that they can be applied by agencies within their normal processing operations. Any recommendations for change forwarded by the ECPC for consideration will also take into account the cost of making the changes. These costs can be considerable and the availability of funding to make changes is critical. The budgetary environment will be considered when the ECPC makes recommendations. As mentioned above, certain proposals may be more adequately addressed through the identification and collection of product data.

Proposals for new or revised industries 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 producing units, which means that the activities of similar producing units cannot be separated in the industry classification system.

Proposals must be in writing and include the following information:

- a) Specific economic activities to be covered by the proposed industry, the proposed industry's production processes, its specialized labor skills, and any unique materials used. This detail should demonstrate that the proposed industry will group establishments with similar production processes that are unique and clearly separable from the production processes of other industries.

- b) Relationship of the proposed industry to existing NAICS United States 2012 six-digit national 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 if available.

Proposals will be collected, reviewed, and analyzed. As necessary, proposals for change will be negotiated with our partners in Canada and Mexico. When this process is complete, the OMB will publish a **Federal Register** notice that contains the ECPC recommendations for additional public comment prior to a final determination of changes to NAICS for 2017.

Part III. Electronic Dissemination of NAICS 2017

Due to increasing printing costs and the accessibility of information on the Internet, the ECPC is considering disseminating NAICS United States 2017 electronically on the official NAICS website (<http://www.census.gov/naics>) and discontinuing printed publications. The ECPC believes that this is an appropriate time to solicit public input on the advisability of such a change.

Part IV. Updating the Structure of the Oil and Gas Industries

The ECPC is soliciting proposals for updating the structure of the oil and gas industries in Subsector 211, Oil and Gas Extraction. Since first defined in NAICS 1997, these industries continue to advance in the equipment and processes employed to produce oil and gas. With these changes, the ECPC is soliciting proposals on how the NAICS structure in this area can better reflect these advancements. Of particular interest are comments concerning onshore and offshore extraction, as well as conventional and unconventional methods of extraction. Proposals for change will be negotiated with our partners in Canada and Mexico, as trilateral agreement extends to the 5-digit NAICS industry level in this area of the structure.

Part V. Update on the Treatment of Manufacturing Units That Outsource Transformation

Recent years have witnessed rapid and widespread specialization in 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. NAICS 2007 did 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 would result in consistent classification of outsourcing establishments and comparable data for these outsourcing establishments across various statistical programs. As a result

of that research, the ECPC recommended to OMB a 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 recognized 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 accepted the ECPC recommendation that factoryless goods producers (FGPs) be classified in manufacturing.

Implementing the guidance to classify establishments that outsource manufacturing transformation in the manufacturing sector of NAICS will potentially affect multiple agencies and programs within those agencies. Variations in classification from differing interpretations prior to OMB's guidance will result in differing impacts.

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 ability to consistently identify establishments as FGPs and the potential impact on various programs are currently being evaluated.

The following paragraphs present a partial list of the statistics that are subject to change based on this decision.

Bureau of Labor Statistics (BLS)

Quarterly Census of Employment and Wages (QCEW), Current Employment Statistics (CES), Job Openings and Labor Turnover Survey (JOLTS), Producer Price Index Program (PPI), Major Sector Productivity, Industry Productivity, Occupational Employment Statistics (OES), and other BLS programs that produce estimates using the NAICS classification system.

Bureau of Economic Analysis (BEA)

Industry Accounts (including Input-Output tables), International Area, National Income and Product Accounts, Regional Accounts, and other BEA programs that produce estimates using the NAICS classification system.

Census Bureau

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 across programs and agencies based on the intensity of outsourcing.

The decision to classify FGPs in manufacturing was included in the *NAICS United States 2012 Manual*. OMB understood the considerable cost and lead-time required to implement this decision consistently across statistical programs using statistically sound methods. Thus, statistical programs were allowed to delay implementation while studying and analyzing the issue. If FGP identification and data collection are determined to be feasible, statistical programs are expected to implement this change for data reference year 2017.

While research is continuing, the ECPC is soliciting additional public comments on the advisability of classifying FGPs in the manufacturing sector of NAICS. A more

complete discussion of the recommendation is available at:

http://www.census.gov/eos/www/naics/fr2010/ECPC_Recommendation_for_Classification_of_Outourcing.pdf. To the extent possible, comments should address the conceptual conclusions presented in the recommendation referenced above. While the final impact of this recommendation is not yet known, the scope of program and data changes, including breaks in time series, must be weighed against the value of more comparable statistics related to this phenomenon. The ECPC is also soliciting public comments on the balance between change and comparability.

Part VI. Changes to Account for Errors and Omissions in NAICS

No significant errors or omissions have been identified in NAICS 2012. Any errors or omissions that are identified in NAICS in the future will be corrected and posted on the official NAICS web site at <http://www.census.gov/naics>.

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Administrator

Office of Information and Regulatory Affairs

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