



## Using Employment Data to Better Understand Your Local Economy

**Read Me First!**

### An Introduction to the Industry and Employment Classification System



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College of Agricultural Sciences  
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# Summary

The industrial classification system is a basic framework for categorizing establishments, and serves as the basis for regional economic analysis.

This system allows us to arrange the economy's multitude of business types into discrete industry classifications. Today, much of the readily available economic data related to employment is based on such classifications.

## Overview: A Classification System

Much of the available employment data on regional economies summarizes (or aggregates) information that is collected from nearly all business establishments. An establishment is a statistical unit, which is the smallest operating entity for which records are maintained. Usually, establishments are a single location where operations are conducted. Although an establishment may be the same as a business, there are many exceptions. For example, a business may consist of more than one establishment.

## The SIC Code

Until recently, industries had been delineated according to the Standard Industrial Classification (SIC) system. SIC codes organize industries in an increasing level of detail ranging from general economic sectors (for example, manufacturing and services) to specific industry segments (such as commercial sports and laundry businesses).

Major industrial sectors are the most general industrial classifications and are identified using letters. Table 1 identifies the major industrial sectors of the economy as identified by the SIC code model.

Of course, these classifications are quite broad and provide only a basic description of the underlying economic activity. Therefore, each industry is further broken down into the two-digit, and sometimes three- and four-digit levels. The more digits, the more

**Table 1. One-Digit SIC Code Classification.**

Letter of Sector	Industrial Sector	Two-Digit SIC Codes Begin
A	Agriculture	07
B	Mining	10
C	Construction	15
D	Transportation/Public Utilities (TPU)	20
E	Manufacturing	40
F	Wholesale Trade	50
G	Retail Trade	52
H	Finance, Insurance, and Real Estate (FIRE)	60
I	Services	70
K	Unclassified	99

**Table 2. Two-Digit SIC Code Classification for Retail.**

SIC Code	Industry
52	Building Materials & Garden Supplies
53	General Merchandise Stores
54	Food Stores
55	Automotive Dealers & Service Stations
56	Apparel & Accessory Stores
57	Furniture & Home Furnishing Stores
58	Eating & Drinking Places
59	Miscellaneous Retail

**Table 3. New NAICS Code Structure.**

NAICS Code	Industry
11	Agriculture, Forestry, and Fishing
21	Mining
22	Utilities
23	Construction
31-33	Manufacturing
41-43	Wholesale Trade
44-46	Retail Trade
48-49	Transportation and Warehousing
51	Information
52	Finance and Insurance
53	Real Estate and Rental and Leasing
54	Professional, Scientific, and Technical Services
55	Management of Companies and Enterprises
56	Administrative and Support and Waste Management and Remediation Services
61	Educational Services
62	Health Care and Social Assistance
71	Arts, Entertainment, and Recreation
72	Accommodation and Food Services
81	Other Service (except public administration)
91-93	Public Administration

specialized the classification. For example, Table 2 shows the two-digit SIC codes for retail trade. Each of these sectors is also further delineated.

### The NAICS Code

After being used in the United States for decades, the SIC has recently been replaced by a similar system called the North American Industrial Classification System (NAICS), which will be used by Canada, Mexico, and the United States. NAICS (pronounced “nakes”) is a six-digit system.

NAICS was adopted in 1997 to recognize the new range of services and technological changes that have occurred since the most recent SIC update. In addition, NAICS was adapted to group industries using similar production processes. For example, the NAICS includes a new information sector. Examples of industries in this sector include software publishing, database and directory publishing, satellite telecommunications, paging, cellular and other wireless telecommunications, on-line information, periodical publishing, motion picture and recording industries, and other information services.

The NAICS divides the economy into 20 major sectors and recognizes 1,170 industries. Five of the 20 sectors are largely goods-producing and 15 are entirely services-producing industries. Like the SIC, the NAICS is hierarchical. The NAICS identifies sectors and industries with two to six digits; the more digits, the more specific the industry identification (see Table 3).

Like its SIC predecessor, the NAICS code is set up as a hierarchy. Typically in comparative discussions of industries the NAICS codes can be used as two-, three-, four-, five-, and six-digit codes. Discussions about manufacturing in general use the two-digit manufacturing codes (31-33), but discussions about particular types of manufacturing use the three-digit subsector codes. Table 4 gives a couple of examples.

### A Few Caveats

When using industrial classifications, you should keep a few important factors in mind.

- First, individual establishments are assigned an industry according to their primary economic activity. Thus, if a business produces goods that fall under two or more industries, the business is classified according to its major output.

- Second, employment figures represent an industry and not an occupation. Thus, industry data does not provide a clear picture of the types of work in which employees are engaged. For example, many companies carry out some of their business services internally. Such services show up in the industry employment statistics for the whole business. For instance, an accountant at a steel mill would be counted in the employment statistics for the steel industry (NAICS 3311) rather than the business service industry (NAICS 5412). However, if the steel mill hired an accounting firm to do their books, this employee would show up in NAICS 5412.
- Finally, for confidentiality reasons, data is often not made publicly available when it will identify individual businesses. While county data is usually available at very aggregated level, confidentiality concerns often arise at more detailed levels of analysis. This is especially true in smaller economic regions, such as rural counties.

Table 4. Two Examples of NAICS Classifications.

Example #1			Example #2	
NAICS Level	NAICS Code	Description	NAICS Code	Description
Sector	31-33	Manufacturing	51	Information
Subsector	334	Computer and electronic product manufacturing	513	Broadcasting and telecommunications
Industry Group	3346	Manufacturing and reproduction of magnetic and optical media	5133	Telecommunications
Industry	33461	Manufacturing and reproduction of magnetic and optical media	51332	Wireless telecommunications carriers, except satellite
U.S. Industry	334611	Reproduction of software	513321	Paging



# For More Information

More information on the  
NAICS and SIC codes is  
available on the Internet, at  
[www.census.gov/epcd/www/  
naics.html](http://www.census.gov/epcd/www/naics.html)



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