



## The History of NAICS

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5 Apr 2007

While many real estate professionals and business executives are reasonably familiar with the older Standard Industrial Classification (SIC) system that was originally developed in the 1930's, many are confused or unfamiliar with the new North American Industry Classification System (NAICS) that is in current wide spread use as of January 1, 2007.

To make matters worse, certain national data reporting agencies, such as Dun & Bradstreet, have confused the issue even further by transposing the U. S. government's former 4-digit SIC codes or the current NAICS 6-digit codes into their own 8-digit or 9-digit industry coding system, and thereby use those longer corporate codes to distribute their own specific industry data.

Commercial real estate professionals can utilize the new NAICS industry coding system to help identify certain businesses to target for promotional information or to target specific business sectors in pursuit of potential clients.

### A little history .....

The older SIC code system was developed originally in the 1930's and used to classify establishments by the type of activity in which they were primarily engaged and to promote the comparability of establishment data describing various facets of the U.S. economy. The SIC code system covered 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. The Office of Management and Budget (OMB) "last" updated the SIC code system over 20 years ago in 1987.

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In recent years, rapid changes in both the U.S. and world economies brought the SIC code system under increasing criticism. Among other things, the North American Free Trade Agreement (NAFTA) in 1993, stimulated interest in eliminating barriers to cross-national flow of goods, services and capital investment for the North American countries. Along with this interest, a need for a common industry classification system combined with a U.S. effort already underway to revise the outdated SIC code system and a coordinated effort among the U.S., Canada and Mexico took shape to explore new approaches to classifying economic activity.

The U.S. Office of Management and Budget established the Economic Classification Policy Committee to work with comparable committees from Canada and Mexico to establish a new classification system. The new system would generate uniform and comparable economic data for the North American countries. This enormous undertaking of consolidated effort was intended to facilitate economic analyses of the economies of these three North American countries. Each country's statistical agency produces information on inputs and outputs, industrial performance, productivity, unit labor costs, and employment. The North American Industrial Classification Code (NAICS) would replace each country's existing classification system and would be constructed within a single conceptual framework, whereby, economic units having similar production processes are classified in the same industry.

NAICS U.S. generates statistical data describing the U.S. economy. NAICS U.S. has been used for other administrative, regulatory, taxation, etc., purposes, although these functional areas played no role in the system development. The U.S. Federal government uses industry classifications for procurement purposes, both for classifying the procurement action and for procurement data reporting and analyses.

Effective October 1, 2000, the new NAICS was applied to procurement actions solicited and awarded after that date for industry and size related classification purposes. The Small Business Administration, charged with establishing size standards against industry classifications, established size standards based on number of employees or average annual sales or assets or electric output for determining business size.



## NAICS Structure Today .....

As of January 1, 2007, most reporting systems have converted completely to the current NAICS format. For information on conversions from the old SIC codes to the current NAICS codes, or to look up a keyword search to find the associated NAICS code, go to the NAICS web page "New to NAICS" sponsored by National Institutes of Health. This web page can be found at: <http://epic.od.nih.gov/naics/index.asp>

NAICS industries are identified by a 6-digit code, in contrast to the 4-digit SIC code. The longer code accommodates the larger number of sectors and allows more flexibility in designating sub-sectors. It also provides for additional detail not necessarily appropriate for all three NAICS countries. The international NAICS agreement fixes only the first 5-digits of the code. The 6<sup>th</sup> digit, where used, identifies subdivisions of NAICS industries that accommodate user needs in individual countries. Thus, 6-digit U.S. codes may differ from counterparts in Canada or Mexico, but at the 5-digit level they are standardized. However, most U.S. business industry classifications codes have a 6<sup>th</sup> digit code of "0".

## The New Hierarchical Structure

XX	Industry Primary Sector
XXX	Industry Sub-Sector
XXXX	Industry Group
XXXXX	Industry Specific
XXXXXX	U.S., Canadian, or Mexican National Additional Industry Specific



**The following are the 20 NAICS primary industry sectors (up from the 10 divisions of the SIC system):**

<b>11</b>	Agriculture, Forestry, Fishing and Hunting
<b>21</b>	Mining
<b>23</b>	Construction
<b>31 - 33</b>	Manufacturing
<b>42</b>	Wholesale Trade
<b>44 - 45</b>	Retail Trade
<b>48 - 49</b>	Transportation and Warehousing
<b>51</b>	Information
<b>52</b>	Finance and Insurance
<b>53</b>	Real Estate and Rental and Leasing
<b>54</b>	Professional, Scientific, and Technical Services
<b>55</b>	Management of Companies and Enterprises
<b>56</b>	Administrative & Support & Waste Management & Remediation Services
<b>61</b>	Education Services
<b>62</b>	Health Care and Social Assistance
<b>71</b>	Arts, Entertainment, and Recreation
<b>72</b>	Accommodation and Food Services
<b>81</b>	Other Services (except Public Administration)
<b>92</b>	Public Administration

Many of the new industry primary sectors reflect recognizable parts of SIC divisions, such as the Utilities and Transportation sectors, broken out from the SIC division Transportation, Communications, and Utilities. Similarly, the SIC division for Service Industries has been subdivided to form several new sectors.

Other industry primary sectors represent combinations of pieces from more than one SIC division. For example, the new Information sector includes major components from Transportation, Communications, and Utilities (broadcasting and telecommunications), Manufacturing (publishing), and Services Industries (software publishing, data processing, information services, motion picture and sound recording). Another example is the Accommodation and Food Services sector puts together hotels and other lodging places from Service Industries, along with eating and drinking places from Retail Trade.



For additional information relating to the **History of NAICS** or **Important Changes By Primary Industry Sector** go to the Halo Realty web page - "NAICS History" located at: [www.halorealty.com/NAICSHistory.htm](http://www.halorealty.com/NAICSHistory.htm)

**Editor's Note:** James T Saint, Real Estate Advocate™ of Halo Realty & Investments Corporation is a CCIM, (Certified Commercial Investment Member). One of a network of 9,000 professionals across North America and 30 international countries holding one of the most coveted and respected designations in the industry, and one often referred to as the "Ph.D of commercial real estate". Mr. Saint specializes in large industrial and office properties for lease or acquisition, as well as tenant or corporate advisory services for improvement of the corporate bottom line. He may be contacted at Tel: (702) 838 - 4226, or by using our web mail form at: [www.halorealty.com/contactus.htm](http://www.halorealty.com/contactus.htm).