

# GLOSSARY

## Tables B-1 through B-4

**North American Industry Classification System (NAICS).** This is a new system that is being used to group business establishments. It is the replacement for the Standard Industrial Classification system (SIC) that has been used since the late 1930s.

Unlike the SIC system, NAICS is based on a single philosophy that all establishments should be grouped together by their major production process. One implication of this is that NAICS classifies auxiliary establishments into the industry covering the types of processes that they use rather than their parent company's major sector. For example, the research and development facility of a manufacturing company is classified as a research and development facility under NAICS, but would have been classified as a manufacturing facility under the SIC system.

With NAICS the economy is divided into twenty sectors, compared to ten divisions in the SIC system. Many, but not all, of the new sectors come from the Services Division of the SICs.

*One important impact of the changes listed above is that there is very limited historical comparability between the two systems.* For example, while there is a manufacturing division in the SIC system and a manufacturing sector in NAICS, manufacturing employment under the two systems cannot be combined to get a trend over time because they count two different sets of establishments.

The sectors defined in NAICS are:

*Agriculture, Forestry, Fishing, and Hunting* — Those establishments primarily engaged in growing crops, raising animals, harvesting timber, and harvesting fish and other animals from a farm, ranch, or their natural habitats.

*Mining* — Those establishments that extract naturally occurring mineral solids, liquid minerals, and gases are included here. This sector also includes quarrying and preparation customarily included in the mining activity, such as crushing, screening, washing, and flotation.

*Utilities* — This sector includes the establishments primarily engaged in the generation, transmission, and distribution of electricity; distribution of natural gas; provision and/or distribution of steam; treatment and distribution of water; and collection, treatment, and disposal of waste through sewer systems and sewage treatment facilities.

*Construction* — The establishments included in this sector are those primarily engaged in the preparation of a site for construction; the construction of buildings and other structures, heavy construction, additions, alterations, reconstruction, installation, and maintenance and repairs; and the demolition of buildings and other structures.

*Manufacturing* — This includes the establishments engaged in the mechanical, physical, or chemical transformation of materials, substances, or components into new products. Also included here are those establishments assembling the component parts of manufactured products (except when they are classified as construction).

*Wholesale Trade* — These establishments are involved in wholesaling merchandise, usually without transformation, and rendering services incidental to the sale of merchandise. This is

the intermediate step in the distribution of merchandise. Normally, wholesalers sell merchandise to other businesses from a warehouse or office with little or no display of merchandise. These establishments are not designed or located to solicit walk-in traffic. Advertising from these establishments is generally not directed toward the general public.

*Retail Trade* — The establishments included here are engaged in retailing merchandise, usually without transformation, and rendering services incidental to the sale of merchandise. Since this is the final step in the distribution of merchandise, these establishments are organized to sell in small quantities to the general public.

*Transportation and Warehousing* — This sector includes establishments providing transportation of passengers and cargo, warehousing and storage for goods, scenic and sightseeing transportation, and support activities related to these activities.

*Information* — The establishments included in this sector are involved with (a) the production and distribution of information and cultural products, (b) providing the means to transmit or distribute these products as well as data or communications, and (c) processing data.

*Finance and Insurance* — Establishments in this sector are primarily involved in financial transactions and/or in facilitating financial transactions. The principal types of activities that these establishments perform are (a) raising funds by taking deposits and/or issuing securities, (b) pooling risk by underwriting insurance and annuities, and (c) providing specialized services supporting financial intermediation, insurance, and employee benefit programs. This sector also includes monetary authorities such as the Federal Reserve Banks.

*Real Estate, Rental, and Leasing* — These establishments are primarily engaged in renting, leasing, or otherwise allowing the use of tangible or intangible assets. Also included in this sector are establishments that primarily manage real estate for others; sell, rent, or buy real estate for others; or appraise real estate.

*Professional, Scientific, and Technical Services* — This sector includes establishments specializing in performing professional, scientific, and technical activities for others. These activities include services such as: legal advice and representation; accounting, bookkeeping, and payroll; architectural, engineering, and specialized design; computer services; consulting; research; advertising; photography; translation and interpretation; and veterinary services.

*Management of Companies and Enterprises* — These are establishments that hold the securities of companies for the purpose of owning a controlling interest or influencing management decisions. Also included here are establishments that administer, oversee, and manage other establishments of the company and normally undertake the strategic or organizational planning and decisionmaking role of the company.

*Administrative and Support and Waste Management and Remediation Services* — The establishments in this sector perform routine support activities for the day-to-day operations of other establishments either in their own company or in other companies. Examples of the specific activities performed by these establishments include: office administration, hiring and placing personnel, document preparation and similar clerical services, solicitation, collection, security and surveillance services, cleaning, and waste disposal services.

*Educational Services* — Establishments in this sector provide instruction and training in a wide variety of subjects. Examples of establishments that would be included here include public and private elementary schools, colleges, universities, and training centers.

*Health Care and Social Assistance* — Establishments providing health care and/or social assistance for individuals are included in this sector.

*Arts, Entertainment, and Recreation* — The establishments in this sector are involved in producing, promoting, or participating in live performances, events, or exhibits intended for public viewing. They may also be involved in preserving and exhibiting objects and sites of historical, cultural, or educational interest. Finally, they may enable patrons to participate in recreational activities or pursue amusement, hobby, and leisure time interests.

*Accommodations and Food Services* — This sector includes establishments providing customers with lodging and/or preparing meals, snacks, and beverages for immediate consumption.

*Other Services (except Public Administration)* — These are establishments providing services not specifically included elsewhere in NAICS. Examples of these activities include equipment and machinery repairing, promoting or administering religious activities, grantmaking, providing drycleaning services, personal care service, death services, photofinishing, and temporary parking services.

*Public Administration* — The establishments included in this sector are federal, state, and local government agencies administering, overseeing, and managing public programs. Note that establishments performing a specific function that can be classified elsewhere are classified by that specific activity. For example, a state agency warehouse is included in the Transportation and Warehousing sector.

**Establishment.** Generally, this is a single physical location at which business is conducted and/or a service is provided. An establishment is not necessarily identical with a company or an enterprise, which may consist of one or more establishments. The count of establishments represents the number in business at any time during the year.

**Employees.** This generally includes both full- and part-time employees who were on the payroll in the pay period including March 12. Included are employees on paid sick leave, paid holidays, paid vacations, and salaried officers and executives of corporations. Proprietors and partners of unincorporated businesses are not included. In the construction and manufacturing sectors, this number represents the average number of employees for the pay periods including the 12th of March, May, August, and November.

**Annual Payroll.** Included here are the wages, salaries, commissions, bonuses, and payments-in-kind to all employees, including officers of corporations. Payroll is reported before any deductions are taken. This excludes the profit or other compensation received by proprietors and partners of unincorporated businesses.

**Value of sales, shipments, receipts, revenue, or business done.** Generally, this includes the total sales, shipments, receipts, revenue, or business done by the establishments included in the economic census.

**Table B-5**

Table B-5 is produced by The Information Technology and Innovation Foundation and is published in *The 2012 State New Economy Index*, which measures the economic structure of states. The report uses twenty-six indicators, divided into five categories that best capture what is new about the New Economy:

1. Knowledge jobs. Indicators measure employment of IT professionals outside the IT industry; jobs held by managers, professionals, and technicians; the educational attainment of the entire workforce; immigration of knowledge workers; migration of domestic knowledge workers; employment in high value-added manufacturing sectors; and employment in high-wage traded services.
2. Globalization. Indicators measure the export orientation of manufacturing and services, and foreign direct investment.
3. Economic dynamism. Indicators measure the number of fast-growing “gazelle” companies; the degree of job churning (which is a product of new business startups and existing business failures); the number of Deloitte Technology Fast 500 and Inc. 500 firms; the number and value of initial public stock offerings (IPOs) by companies; the number of entrepreneurs starting new businesses; and the number of individual inventor patents issued.
4. The digital economy. Indicators measure the percentage of population online; the degree to which state and local governments use information technologies to deliver services; use of IT in the health care sector; Internet and computer use by farmers; residential and business access to broadband telecommunications; and use of information technology in the health care system.
5. Innovation capacity. Indicators measure the number of jobs in technology-producing industries; the number of scientists and engineers in the workforce; the number of patents issued; industry investment in research and development (R&D); nonindustry R&D; venture capital activity; and movement toward a green energy economy.

Because each *State New Economy Index* since 1999 has used slightly different indicators and methodologies, the total scores are not necessarily comparable. Therefore, a state’s movement to a higher or lower overall rank between editions may not positively reflect actual changes in its economic structure.

In all cases, the report relies on the most recently published statistics available, but, because of the delays in publishing government statistics, some data may be several years old. Where applicable and appropriate, raw data is normalized to control for factors such as state population and GDP.

Raw scores for each indicator are standardized. Weights for each indicator are determined according to their relative importance and adjusted such that closely correlated indicators do not bias the final results. To produce the section scores, the standardized indicators scores under each section are multiplied by their respective weights, summed, and then this sum is translated by +10. The overall score is calculated by first summing the maximum score of each section to determine a “maximum potential overall score.” The overall score for each state is then the sum of the state’s score on each section, which is then expressed as a percentage of the maximum potential overall score.