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**The revised classification of economic activities NACE Rev. 2 and its  
implication for business surveys**

# The revised classification of economic activities NACE Rev. 2 and its implication for business surveys

## 0. Scope

This document aims at presenting the main aspects of the revision of the statistical classification of economic activities (NACE Rev. 2) and their possible implications on business and consumer surveys (BCS).

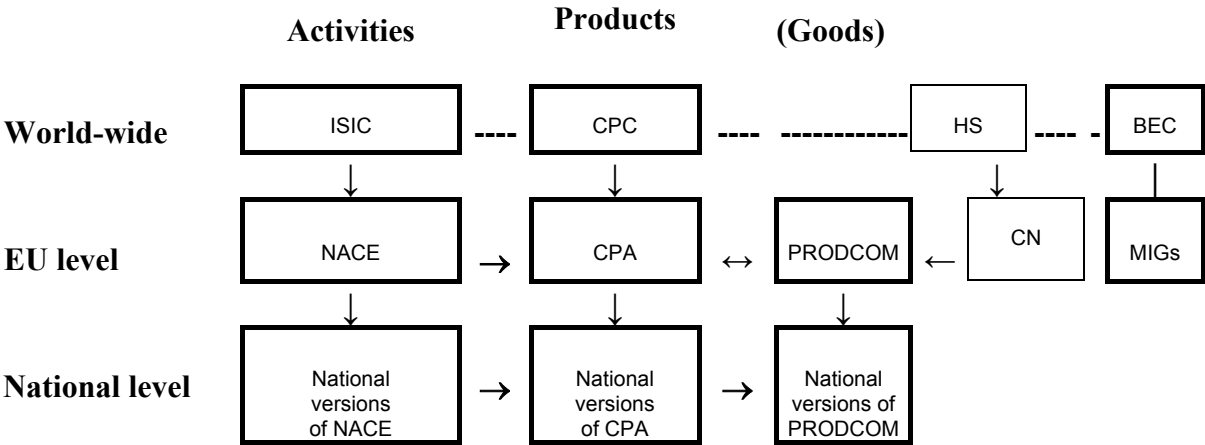
It first presents the role of NACE in the statistical system of economic classifications (Par. 1), as well as the main changes from NACE Rev. 1 to NACE Rev. 2 (Par.2). The implementation plan for the revised NACE in the European statistical system is then described (par. 3), and finally possible implications for the Business and Consumer Surveys (BCS) are outlined.

More information on the revised NACE is available at the Eurostat dedicated website: <http://forum.europa.eu.int/irc/dsis/nacepacon/info/data/en/index.htm>.

At this website users can find the explanatory notes of NACE Rev. 2, the correspondence tables between the old and new classifications (and vice versa), the 20 linguistic versions of the revised classifications and other useful documents.

## 1. The revision of the system of classifications of economic activities and products

The EU statistical classifications of economic activities (NACE) and product by activity (CPA) are part of the global integrated system of statistical classifications, which is represented in the table below.



Such an integrated system allows the comparability of statistics produced in different domains, at both European and international levels. As a consequence, for instance, statistics on the production of goods (produced according to Prodcom) could be compared with statistics on trade (produced according to the Combined Nomenclature, CN).

Moreover, the specific link between the European classifications of activities and products allows the definition of Main Industrial Groupings (MIGs), of great relevance for short term statistics.

In 2002, a major revision of the whole system was considered necessary, and Eurostat started the related project called "Operation 2007", coordinated with the work at the UN.

The main criteria driving the revision have been relevance, better comparability with other national and international classifications and continuity with their previous versions.

In March 2006, the UN statistical Commission has adopted the revised ISIC (the International Standard Industrial Classification of all economic activities, rev. 4) and the revised CPC (Central Product Classification, ver. 2).

The structures of NACE Rev. 2 and CPA 2008 are also finalised: they are the outcomes of a long consultation process, which involved all relevant stakeholders, and are completely consistent with ISIC.

The use of NACE and CPA in the European Statistical System is regulated by two EP/C Regulations: the draft Regulations amending the original ones according to the revised structure are Commission proposals and going through the legislative procedure. It is expected that the Regulation establishing NACE Rev. 2 will be published in the Official Journal by January 2007.

## **2. Main changes from NACE Rev. 1 to NACE Rev. 2**

The revised classifications reflect the growing importance of the service sectors, as well as the technological development and the evolution of the world economy. Therefore, the main changes relate to services activities, while manufacturing activities have not undergone substantial revision. The table in the Annex presents the broad correspondence between the sections in NACE Rev. 1 and NACE Rev. 2.

As far as manufacturing activities are concerned, the following changes should be considered:

- Publishing activities (part of Div. 22 "Publishing, printing and reproduction of recorded media") moved from section D (Manufacturing) to the new section J "Information and communication" under Services;
- Recycling (Division 37) moved from Section D (Manufacturing) to the new section E "Water supply, sewerage, waste management and remediation activities", under services.
- A specific division has been created for "Repair and installation of machinery and equipment".

The expansion of detail in NACE Rev. 2 for service activities can be measured by the number of sections (1 letter) devoted to services, which has increased from 8 to 13; by the number of divisions (2 digit level), which has increased from 22 to 44; and by the number of classes (4 digit level), which passed from 100 to 166.

NACE Rev. 2 introduces separate sections for:

- Electricity, gas, steam and air conditioning supply
- Water supply, sewerage, waste management and remediation activities
- Transportation and storage
- Information and communication
- Real Estate
- Professional, scientific and technical activities
- Administrative and support service activities
- Arts, entertainment and recreation
- Other services activities

The service sections already existing in NACE Rev. 1 but which have seen important restructuring are the following:

- Hotels and restaurants, now called “Accommodation and Food service activities”;
- Financial intermediation, now called “Financial and insurance activities”;
- Education
- Health and social work, now called “Human health and social work activities”.

### 3. Implementation of NACE Rev. 2

While providing a modern statistical infrastructure for the analysis of the current economy, the introduction of the revised classifications in the European Statistical System represents a complex and expensive project in all National Statistical Institutes and affects all surveys referring to NACE.

The changes of NACE/CPA have a strong impact particularly on the business registers, on the design of the enterprise surveys, on the production and dissemination processes. In addition, historical series have to be reconstructed for some statistics.

The table below presents the timing for the implementation of NACE 2 in EU statistics. This plan has been drafted in cooperation with experts from National Statistical Institutes in the various statistical domains; it has been designed to allow a simultaneous switch of all countries in each domain and taking into account:

- the dependencies between the different surveys,
- the feasibility constraints and
- the necessity to adopt the new classification as soon as possible.

<b>Implementation plan for NACE Rev. 2 - October 2006</b>	
1 <sup>st</sup> January 2008	Statistical units in Business Registers referring to this date shall be classified according to NACE Rev. 2
1 <sup>st</sup> January 2008	Economic activities performed from this date onward shall be classified according to NACE Rev. 2.  2008 will be the first reference year for all community statistics in accordance to NACE Rev. 2, with the exclusion of: STS, LCI, National Accounts, Balance of Payments and Economic Accounts for Agriculture.
1 <sup>st</sup> January 2009	Starting of the reference period for the production of STS and LCI indices produced according to NACE Rev. 2. For these domains, Member States will provide also back-cast series.
October 2009	Preliminary SBS data referring to 2008 will be sent to Eurostat according to NACE Rev. 2
June 2010	Definitive SBS data referring to 2008 will be sent to Eurostat according to both NACE Rev. 2 and NACE Rev. 1.1
September 2011	Implementation of NACE Rev. 2 in National Accounts and Balance of Payments.

2011	Implementation in Agricultural statistics
2012	All community statistics will be produced according to NACE Rev. 2

The first statistics produced according to NACE Rev. 2 will be Short Term Statistics (STS) and Labour Cost Index (LCI), in the first quarter of 2009.

Looking at this table, it emerges that there will be a time lag of more than two years between the first statistics presented according to NACE Rev. 2 and the time when all statistics will be produced according to the revised classification. This will create some problems for users: a coordinated dissemination strategy will be proposed for the European Statistical System , in order to reduce the inconveniences.

#### **4. Possible implications for Business and Consumer Surveys**

In the EU countries, most of the BCS are based on the statistical Business Register (BR): the BR usually constitutes the sampling frame from which the national samples are designed and extracted. A NACE activity code is attached to each unit in the BR, and this code is the selection criterion for the definition of the universe of reference for each of the 5 surveys.

According to the implementation plan, statistical Business Registers in the EU countries will be updated according to NACE Rev. 2 in 2008: this is the reference date, but not all countries are waiting 2008 for the update. Some countries have already started the switch-over, and others will make it in late 2008.

As described in section 2, some activities go out of the manufacturing section and enter the service section. This will imply two problems:

1. comparability over countries (if the switch-over is not done simultaneously) and
2. comparability of historical series (because of the definitional differences).

A possible solution for the first issue could consist in establishing a common date for the switch-over: considering the implementation plan presented under section 3, such a switch could take place in 2009, under the constraint that all national surveys adopt the change at the same time.

For the second problem, first of all a study should be performed in order to evaluate the impact of the change on BCS. If the reduction of coverage for manufacturing (with the corresponding increase for services) is considered important, a backcasting methodology should be identified for reconstructing the time series according to NACE Rev. 2. Eurostat is currently drafting a handbook on backcasting methodologies for reconstructing time-series broken by the introduction of the revised classification, in cooperation with experts from National Statistical Institutes. Should the BCS series require to be reconstructed, this handbook would be a useful tool within the BCS context.

## ANNEX

**Broad correspondence between NACE rev. 1 and NACE Rev. 2**

ISIC Rev. 3 – NACE Rev. 1		ISIC Rev. 4 – NACE Rev. 2	
Section	Description	Section	Description
<b>A</b> <b>B</b>	Agriculture, Hunting and Forestry Fishing	<b>A</b>	Agriculture, Forestry and Fishing
<b>C</b>	Mining and quarrying	<b>B</b>	Mining and quarrying
<b>D</b>	Manufacturing	<b>C</b>	Manufacturing
<b>E</b>	Electricity, gas and water supply	<b>D</b> <b>E</b>	Electricity, gas, steam and air conditioning supply Water supply, sewerage, waste management and remediation activities
<b>F</b>	Construction	<b>F</b>	Construction
<b>G</b>	Wholesale and retail trade: repair of motor vehicles, motorcycles and personal and household goods	<b>G</b>	Wholesale and retail trade; repair of motor vehicles and motorcycles
<b>H</b>	Hotels and restaurants	<b>I</b>	Accommodation and food service activities
<b>I</b>	Transport, storage and communications	<b>H</b> <b>J</b>	Transportation and storage Information and communication
<b>J</b>	Financial intermediation	<b>K</b>	Financial and insurance activities
<b>K</b>	Real estate, renting and business activities	<b>L</b> <b>M</b> <b>N</b>	Real estate activities Professional, scientific and technical activities Administrative and support service activities
<b>L</b>	Public Administration and defence; compulsory social security	<b>O</b>	Public administration and defence; compulsory social security
<b>M</b>	Education	<b>P</b>	Education
<b>N</b>	Health and social work	<b>Q</b>	Human health and social work activities
<b>O</b>	Other community, social and personal services activities	<b>S</b> <b>R</b>	Other service activities Arts, entertainment and recreation
<b>P</b>	Activities of private households as employers and undifferentiated production activities of private households	<b>T</b>	Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use
<b>Q</b>	Extraterritorial organizations and bodies	<b>U</b>	Activities of extraterritorial organizations and bodies

Note: ISIC 3/ NACE 1 had 17 sections and 62 divisions. ISIC 4/NACE 2 have 21 sections and 88 divisions.