

FREQUENTLY ASKED QUESTIONS ON THE PRODUCER PRICE INDEX (PPI) FOR FINAL DEMAND

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The new headline PPI for final demand seems very complex. How can I better interpret the data?

The PPI for final demand measures the average change in prices received by domestic producers of goods, services, and construction sold for personal consumption, capital investment, government, and export.

For those already familiar with Gross Domestic Product (GDP), it may be helpful to observe the following comparison:

GDP tracks dollar value of spending by domestic entities on personal consumption (C), capital investment (I), government purchases (G), and exports (X) minus imports (M)

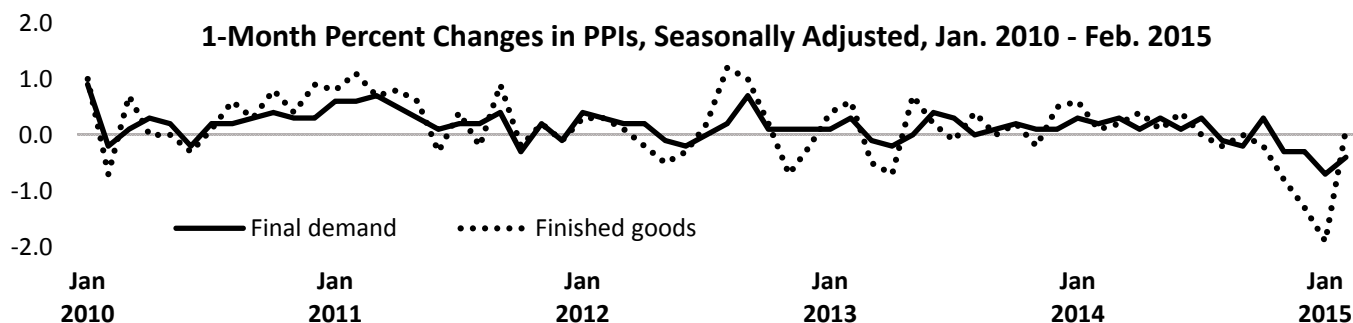
$$GDP = C + I + G + (X - M)$$

The PPI for final demand tracks average prices received by domestic producers for output sold to that same formula of components (except imports, because they are not domestically produced)

$$PPI \text{ Final Demand} = C + I + G + X$$

How does the volatility in the PPI for final demand compare with the former headline PPI for finished goods?

Over the time period for which data are available, the percent change in the PPI for final demand does not move as far from its average as the PPI for finished goods on a 12-month or a 1-month basis.



Does the PPI survey observe enough service industries to develop such a broad index as final demand?

We cover approximately 72 percent of the service sector's output, as measured by revenue reported in the 2007 Economic Census. The final demand–intermediate demand (FD–ID) system more than doubles PPI coverage of the U.S. economy compared with the PPI for finished goods to over 75 percent.

If I want to see the old PPI series, the stage-of-processing (SOP) indexes, where can I get them?

All SOP indexes remain in publication under the FD–ID system. A concordance table may be viewed at www.bls.gov/ppi/fdidconcordance.htm.

What are the more volatile components of the PPI for final demand and may I view the data without them?

Historically, PPIs for food and energy goods have shown greater short-term volatility than PPIs for other goods. In addition, the indexes for wholesale and retail trade, which measure changes in margins, also are

subject to potentially large, short-term changes. Indexes are available that exclude some or all of the volatile components:

- Final demand less trade services
- Final demand less foods, energy, and trade services
- Final demand services less trade services

Seeing as the PPIs for trade industries measure margins rather than sales prices, why are they in the PPI?

The retail and wholesale trade sector contributes about 10 percent of value added to GDP, according to Bureau of Economic Analysis (BEA) data for 2014. To provide the most comprehensive measure of output prices in the U.S. economy, it is vital to include this sector in the PPI.

The output of the trade sector is defined by the services they provide rather than the physical merchandise they sell. Therefore, the value that these services add to merchandise is what we seek to measure. Using a similar concept as BEA, which compiles GDP using value-added data, we measure trade sector value-added as the difference between the price at which merchandise is acquired and the price at which it is resold in a given month. This is what we call the margin price.

Further information on the definitions of the trade sector's services are available in the short article *Wholesale and retail Producer Price Indexes: margin prices*, available online at <https://www.bls.gov/opub/btn/volume1/wholesale-and-retail-producer-price-indexes-margin-prices.htm>

Why do PPIs for the trade sector appear so volatile?

There are two main reasons behind the volatility in trade sector PPIs:

Two prices—selling prices and acquisition prices—are used to calculate margin prices. Both of these often change from month to month. Especially when these two prices move in opposite directions, the margin can change substantially in a single month.

Even small changes in price may represent a large portion of the margin in percentage terms. To illustrate, suppose that the average price paid for a bottled beverage at a grocery retailer is \$1.00. Even if the price the retailer pays the wholesaler stays the same, say, \$0.90 per bottle, the change in margin if the retailer raises its selling price by just \$0.05 is 50 percent.

Did BLS explain the proposed changes and seek input from customers before making the switch to the final demand index?

We introduced the new PPIs as experimental indexes in February 2011. Since then, the BLS website and publications have featured information about methods and asked the public to comment. BLS also published two Federal Register notices.

We asked a variety of stakeholders for their views as early as 2010. Our outreach at meetings and conferences focused on other economic and statistical agencies, professional trade organizations, and journalists who report about PPI data.*

Information about the new indexes, ranging from basic to in-depth, has been available on the BLS website since their introduction. More information is available at www.bls.gov/ppi/fdidaggregation.htm.

We are available to answer questions at ppi-info@bls.gov or 202-691-7705.

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