

Producer Price Index

Working group for PPI	<p>The Government had set up a Working Group under the Chairmanship of Professor B. N. Goldar on 21st August, 2014 to suggest the methodology for introducing Producer Price Index (PPI) in India and eventually migrating from WPI in keeping with international best practices. The Working Group submitted its report on 31.08.2017.</p> <p>PPIs are part of the International Monetary Funds (IMF) recommended set of economic indicators.</p>
About PPI	<p>The Producer Price Index (PPI) measures the average change in the prices of goods and services, either as they leave the place of production called Output PPI or as they enter the production process called Input PPI.</p> <p>Thus, the output indices measure the average change in prices that producers receive for their outputs while the input indices measure the average change in prices that producers pay for their inputs.</p>
Producers' price	<p>The output PPI reflects prices of goods and services received by the producers exclusive of any tax on product, transport and trade margin, i.e., the prices are measured at basic price captured at the level of ex-factory, ex-mine, ex-firm, ex-service provider etc.</p> <p>The basic price would however include any taxes/ subsidies on production, if any. GST charged by Producer, profit margin, insurance and transport charges will not be added.</p>
Purchaser's price	<p>For input PPI, valuations are done at purchaser's price which is defined as the amount paid by the purchaser inclusive of any non-deductible taxes on product, and transport and trade margins.</p> <p>Purchasers' price = Producer's price + GST (if not deductible by the purchaser i.e. input credit not available) + transport charges + Wholesaler's and retailer's margin</p>
Major recommendations of Working Group	<p>(i) PPI in India may be compiled based on Supply and Use Table 2011-12 (published by the Central Statistics Office) using Total Final Use values.</p> <p>(ii) The PPIs may be initially compiled on an experimental basis and switching over from WPI to PPI should be undertaken after the PPI series stabilizes and due consultation with the stakeholders is done.</p> <p>(iii) For compilation of experimental PPI, price quotations collected for current series of WPI may be used.</p> <p>(iv) The experimental PPI will be released on monthly basis. Initially, the base year of the experimental PPI would be 2011-12.</p> <p>(v) Currently there is limited coverage of service sectors due to non-availability of data and conceptual complexities. Given the limitations, the Working Group has identified 15 services to be included in the experimental PPI and their prices would be taken from CPI / BSPI. The coverage of service sector may be extended to all key sectors on an urgent basis during the experimental phases of PPI.</p>
Supply and Use Table	<ul style="list-style-type: none"> CSO has for the first time compiled and published The Supply and Use tables (SUT) with 140 products & Services and 66 industries of the Indian economy for the years 2011-12 and 2012-13.

	<ul style="list-style-type: none"> Supply Table shows, the value of the product by kind of supplier/producer, distinguishing the domestic supply from foreign supply (imports). Use Table shows, the value of use of the product (good or service) by type of use, i.e. as intermediate consumption by industries, final consumption, gross capital formation and exports. The supply-use equation for any given product in an economy can be mathematically expressed as: $\text{Output} + \text{Imports} = \text{Intermediate consumption} + \text{Final consumption} + \text{Gross Capital formation (including changes in stocks and valuables)} + \text{Exports}.$ SUT provides the ideal concept for balancing supply and demand and it is the best framework for compiling Gross Domestic Product (GDP) at current prices.
Difference between PPI and WPI	<ul style="list-style-type: none"> Producer Price Indices (PPI) capture price transmission across stages of production and final demand and thus provide a more useful economic indicator for analyzing the buildup of inflationary pressures in an economy, more effectively than the WPI which tracks prices of bulk transactions at first stage of all intermediate and final products. Inherent drawback of the aggregate basket of WPI without appropriate segregation of intermediate and final products involves multiple counting which can lead to bias in measures of inflation. PPI removes the multiple counting biases inherent in WPI. PPIs can be compiled separately for Out PPIs, Input PPIs and Export and Import PPIs. WPI does not cover services and whereas PPI includes services. Weights of items in WPI are based on net traded value whereas in PPI weights are derived from Supply and Use Table (SUT).
Difference between PPI and CPI	<ul style="list-style-type: none"> PPI estimates the change in average prices that a producer receives while CPI measures the change in average prices that a consumer pays. The prices received by the producers differ from the prices paid by the consumers on account of various factors such as taxes, trade and transport margin, distribution cost etc.. Weights of items in CPI are derived from Consumer Expenditure Surveys whereas for PPI it is calculated on the basis of Supply Use Table.
Use of PPI	<p>PPI estimates are used as deflators in national accounts i.e.GDP and for indexation/escalation of business contracts etc.</p> <p>For a majority of industries, Gross Value Added (GVA) at constant prices is derived by dividing GVA at current prices with WPI (Single Deflation Approach).</p> <p>Best approach to calculate estimates of GVA is a “Double Deflation Approach” which derives GVA at constant prices as the difference between deflated gross output and intermediate consumption by, respectively, output and input price index.</p> <p>Compilation of PPI would make it possible to apply the double deflation method and thus provide a more accurate reflection of the price changes of the relevant economic activities.</p>