# Producer Price Index (PPI)

## What is the Producer Price Index (PPI)?

The Producer Price Index or PPI is an index that measures the average price change of goods and services. It can be calculated either when the goods leave the place of production or as they enter the production process.

- In the case where the goods leave the production place, it is known as ***Output PPI***.
- Similarly, ***Input PPI*** is when goods enter the production process.

The PPI measures price movements from the seller's point of view. Conversely, the consumer price index (CPI), measures cost changes from the viewpoint of the consumer. In other words, this index tracks changes to the cost of production.

## Producer Price Index (PPI) vs Wholesale Price Index (WPI)

| **Producer Price Index (PPI)** | **Wholesale Price Index (WPI)** |
|---|---|
| The Producer Price Index or PPI is an index that measures the average price change received by the producer excluding the indirect taxes. | The Wholesale Price Index represents the price change of a basket of goods and includes some taxes levied. The distribution costs are also considered in WPI. |
| It tracks price change in both the goods and the services sector, giving a clear picture of the inflation in the country. | The services sector which contributes to 60% of the GDP is not included in WPI. |

## Producer Price Index (PPI) vs Consumer Price Index (CPI)

| **Producer Price Index (PPI)** | **Consumer Price Index (CPI)** |
|---|---|
| PPI is an estimate of the change in average prices that the producer receives which are not always what the consumer pays for it. | Consumer Price Index (CPI) measures the change in average prices that the consumer pays to the retailer. |

## UPSC Questions relevant to PPI

**Who publishes Producer Price Index in India?**

- The Producer Price Index is not yet formulated in India. India uses CPI to track inflation.

**Why is the Producer Price Index important?**

- India uses the WPI and CPI to calculate the inflation in the country.
- PPI is a leading indicator of CPI.
- When producers are faced with input inflation, those rising costs are passed along to the retailers and eventually to the consumer.
- This makes the Producer Price Index (PPI) an important indicator of the economy.

**How is the PPI index calculated?**

- The PPI is calculated by dividing the current prices received by the sellers of a representative basket of goods by their prices in some base year multiplied by 100.
- **PPI Formula:**
  - (Cost of basket received by the sellers in current period Cost of basket in base period ) 100