

Glossary: Producer price index (PPI)

Statistics Explained

The (industrial) **producer price index**, abbreviated as **PPI** and also called **output price index**, is a [business-cycle](#) indicator showing the development of transaction prices for the monthly industrial output of economic activities.

The PPI does not only serve as an early indicator of [inflationary](#) pressures in the economy before it reaches the consumer, but it can also record the evolution of prices over longer time periods.

The PPI for a specific [economic activity](#) measures the monthly change in the trading price of products and related services. The PPI is an output index – it measures price changes from the seller's perspective. The prices collected in period t should refer to orders booked during period t (at the moment of the order) and not the moment when the commodities leave the factory gates. Price indices are calculated as a [weighted](#) average of the relevant products.

PPIs are calculated for the total, the **domestic** and the **non-domestic** markets, with the latter further split between [euro area](#) and **non-euro area** markets. The indicators of domestic and non-domestic prices require separate producer price indices to be compiled according to the destination of the product. The residency of the third party which has ordered or bought the product defines the destination. The domestic market is defined as all third parties ordering or buying which are residents in the same national territory as the [observation unit](#) from which sales or orders are collected. When combined, the sub-indices for the domestic and the non-domestic markets give the total change in the PPI for a given product.

The appropriate price for calculating the PPI is the basic price that excludes [VAT](#) and similar deductible taxes which are directly linked to [turnover](#), as well as all duties and taxes on the goods and services invoiced. However, subsidies on products received by the producer, if there are any, should be added to the basic price.

All price-determining characteristics should be taken into account, including the:

- quantity of units sold;
- transport provided;
- rebates;
- service conditions;
- guarantee conditions;
- destination.

Further information

- [Handbook on industrial producer price indices \(PPI\)](#)
- [European Price Statistics - An overview, 2008 edition](#)

Related concepts

- [Services producer price index \(SPPI\)](#)
- [Harmonised index of consumer prices \(HICP\)](#)

Statistical data

- [Industrial producer price index overview](#)