

## New Reference Base for Producer Price Indexes

Effective with the release of data for January 1988, many important producer price indexes were changed to a new reference base year, 1982=100. The standard index base had been 1967=100. The 1987 annual average for the Producer Price Index for Finished Goods on the 1982 base is 195.4, indicating that producer prices in 1987 were only about 5 percent higher than they were in 1982.

To illustrate the meaning of rebasing, the December 1987 value of the Finished Goods Price Index on the 1967 base was 296.8, which meant that prices received by producers of finished goods in December 1987 were nearly three times what they were 20 years before. The value of this index in 1967 on the 1982 base was 35.6, also showing that prices received by producers have nearly tripled since 1967.

The Government has a longstanding policy of periodically updating index bases because comparison with a recent base period is more relevant than comparison with a more distant period. The base year of 1982 coincides with the reference year of the PPI shipment weights, which have been taken primarily from the 1982 Census of Manufactures. The last rebasing of PPI data occurred in February 1971, when the 1967 base replaced the former 1957-59 base.

The shift in base period affects all indexes for stage-of-processing groupings, commodity groups, individual items, and durability-of-product groupings that had previously been expressed on a base of 1967=100 or another base through December 1981. Indexes with a base later than December 1981, as well as indexes for the net output of industries and their products, are not affected.

Tables of rebased historical data from January 1967 through December 1987 for most stage-of-processing groupings and some important commodity groupings appeared in table 21, pages 204 through 222 of *Producer Price Indexes, Data for January 1988*. Historical annual averages for a select group of indexes are shown in table 9 of this *Supplement*. Users may obtain other tables of historical data for particular PPI series rebased to 1982=100 from the Bureau of Labor Statistics on request. Users needing a large number of rebased historical tables may purchase from BLS an electronic data tape containing the complete PPI database, currently available for \$60, payable in advance; see the end of this note for ordering information.

Rebased historical indexes meet the needs of PPI users by allowing calculations of percent changes between future data on the 1982 base and earlier data on a consistent base. However, for those who prefer to convert official index data to the

old 1967 base, BLS also has available rebasing factors for each affected series. These rebasing factors allow data users to calculate approximately what a given index on the current official 1982 base would have been on the earlier reference base period, by dividing the 1982-based index by the appropriate rebasing factor. For example, if the index for apparel at some time in the future were 108.0 (1982=100), a data user could convert that to the old 1967 base by dividing it by its rebasing factor, 0.51454864, to yield 209.9 (1967=100), after rounding. This method requires a separate calculation of a 1967-based index each time a 1982-based index is released.

Rebasing factors also could be used to convert previously published 1967-based indexes to the 1982 base by multiplying the 1967-based indexes by the appropriate rebasing factor. In general, however, this should not be necessary because BLS has recalculated all earlier indexes. Rebased historical indexes can not always be precisely replicated by applying the rebasing factor because the BLS results were obtained with the use of more accurate, unrounded monthly indexes, whereas published indexes are rounded to one decimal place.

The shift to a new reference base does not in itself cause any substantive changes to previously published percent changes for affected PPI series; however, rounding differences may have some marginal impact.

The Bureau has for some time suggested that those using PPI data for contract escalation "provide for a change in the index base period" in developing their agreements (*Escalation and Producer Price Indexes: A Guide for Contracting Parties*, BLS Report 570). The Bureau urges all users of the PPI to adopt the new index base period in escalation and other agreements that cite PPI indexes.

The Finished Goods Price Index is the only PPI that presently is officially published by BLS on the old 1967=100 base; this now appears each month in table 3 of the monthly news release. The all commodities index appears in this same table on the new 1982 base, but will no longer be published on the 1967 base or on the 1957-59 base.

For information on rebased historical indexes or rebasing factors, contact the nearest regional office of BLS or: Analysis Team, Division of Industrial Prices and Price Indexes, BLS, 600 E Street, N.W., Room 5210, Washington, DC 20212, telephone 202-272-5113.