

## **A. Justification**

### **1. The Necessity of the Collection**

The Producer Price Index (PPI) is a Principal Federal Economic Indicator consisting of a family of indexes that measures the average change over time in the selling prices received by domestic producers of goods and services. PPIs measure price change from the perspective of the seller. This contrasts with other measures, such as the Consumer Price Index (CPI), that measure price change from the purchaser's perspective. About 10,000 PPIs for individual products and groups of products are released each month. PPIs are available for the output of nearly all industries in the goods-producing sectors of the U.S. economy— mining, manufacturing, agriculture, fishing, and forestry— as well as natural gas, electricity, construction, and goods competitive with those made in the producing sectors, such as waste and scrap materials. The PPI data are widely used by the business community as well as by government. In particular the data are used as an economic indicator playing a crucial role in market analysis, as a deflator of other economic series, the basis for the calculation of price adjustments for contracts and purchase agreements, and as an input to economic research. These uses highlight the necessity of the PPI in order to understand the economy. The legal authority to collect information necessary for the publication of the PPI is contained in Title 29, Section 2, of The Code of Laws of the United States of America.

The Bureau of Labor Statistics (BLS) divides price measurements into three areas. The first one, consumer prices, measures the change in prices the typical consumer pays. The second, international prices, measures the changes in prices importers pay and exporters receive. The last one, producer prices, measures the change in prices received by domestic producers for the products and services they make and sell. The current framework for PPI sampling and data collection is the classification structure of the North American Industrial Classification System (NAICS) and, since the release of indexes for January 2004, is augmented by the Bureau of Census' Classification Analytical Processing System (CAPS.) The PPI currently covers nearly the entire output of all mining and manufacturing industries in the United States economy. The PPI program also currently publishes price data on about 133 service industries as well as 9 non-residential construction industries. The PPI now covers about 72% of in-scope services domestic output and about 31% of construction domestic output as measured by the 2012 Census Value of Shipments.

### **2. Use of Information**

PPI data meets a wide range of government needs by providing a description of the magnitude and composition of price changes within the economy. Government agencies view these indexes as sensitive indicators of the economic environment and closely follow each monthly release of statistics. PPI data are vital in helping the President and Congress set fiscal spending targets. The Federal Reserve Board Open Market Committee monitors producer

prices to help determine monetary policy. Federal policy makers at the Department of the Treasury and the Council of Economic Advisors utilize these statistics to help interpret the economic environment and make decisions based upon these interpretations. Many dollar-denominated measurements of economic performance, such as the Gross Domestic Product (GDP), require accurate price data for the conversion of nominal dollars into real dollars. National income accounting figures must also be inflation free in order to remain relevant to fiscal and monetary policy makers setting objectives. Price adjustment clauses in government purchasing contracts commonly use one or more PPIs. According to a conservative estimate, hundreds-of-billions of dollars' worth of contracts and purchase agreements employ PPIs as part of price adjustment clauses. Failure to calculate these price data would prolong the time frame needed for accurate recognition of and appropriate adaptation to economic events.

The private sector also makes extensive use of PPI data. Researchers commonly use producer prices to probe and measure the interaction of market forces. Private firms use PPIs for contract escalation and price adjustment. The Internal Revenue Service (IRS) recommends using PPI data for certain kinds of tax related inventory accounting, such as Last-In-First-Out (LIFO). Private businesses extensively use PPIs for planning and operations. Firms often compare the prices they pay and receive with changes in appropriate PPIs.

Economic researchers and forecasters also put PPIs to regular use. They use PPI data to better understand market forces. Research topics requiring producer price data include studying elasticities, potential lead and lag structures within price changes, and the identification of prices that demonstrate tremendous influence throughout the economy if they change. Policy-makers, businesses, and researchers all require complete descriptions of price change trends if they are to perform effectively and efficiently.

The expansive coverage of PPIs makes it very valuable to the users described above as well as many others. The PPI program tabulates and publishes price indexes for within-industry product lines, 6-digit industry classifications, and higher level aggregate indexes for the mining and manufacturing sectors. The PPI currently publishes NAICS indexes for approximately 380 mining and manufacturing industries. The PPI coverage of the non-goods-producing sectors includes 142 NAICS industries, 133 services, and 9 construction. PPI also publishes commodity-based indexes encompassing agriculture, forestry, mining, manufacturing, services, and construction. There is a third structure of indexes for the flow of production called the Final Demand-Intermediate Demand (FD-ID) aggregation system. There are other special-use indexes, including some for regional detail. The PPI program uses one set of micro-data it collects to generate all its outputs. The format and content of these data are shown in the program's monthly publication titled **PPI Detailed Report**, an archive found at [https://www.bls.gov/ppi/ppi\\_dr.htm](https://www.bls.gov/ppi/ppi_dr.htm).

In fiscal year 2020, PPI and BLS's Import Price Index (MPI), will introduce a satellite set of net inputs to industry price indexes. These new indexes measure price change for both domestically produced and imported inputs consumed by most 3-digit NAICS industry groupings, excluding capital investment and labor. The new satellite series are complimentary to official indexes and are produced and published separately from the existing official PPI inputs to industry series. The new data series improves upon the existing net inputs to industry

price indexes by adding prices for imported inputs of goods. The satellite series also represent a major coverage expansion relative to the official input price indexes, which are only available for construction industries and a very limited number of mining, manufacturing, and services industries. The new data provide business users with additional data options for industry cost analysis, price transmission analysis, contract escalation, and deflation of revenue streams, removing the effects of price changes and converting nominal revenue into real revenue. Each month beginning with the initial data release, PPI and MPI will post an Excel file on a new web page with data for the current period and revised data for the four months prior. Data in the table are published at the third decimal place level of precision. PPI will advertise the availability of the satellite data and conduct presentations to obtain user feedback.

### **3. Use of Electronic Collection Methods**

Prior to the onset of the coronavirus pandemic, initiation of respondents into the PPI survey were primarily conducted in person by BLS data collectors. However, because of the coronavirus pandemic, data collectors temporarily ceased all personal interviews and began conducting initiation interviews by telephone. PPI expects that other modes of collection, for instance video, will become available once security protocols are established. For its repricing survey, the PPI program traditionally relied on a mix of collection modes, including U.S. mail, fax, e-mail, and online electronic submission. Over the past few years, online electronic submission proved so effective that the PPI program initiated an effort to convert all of its repricing respondents to the online electronic submission. After a multi-month transition period and beginning with the February 2018 collection month, the PPI program officially transitioned to an online electronic submission for its repricing survey. PPI does, on a very limited basis, collect price information from a company's public website to reduce respondent burden. This mode of electronic collection is limited because producer price data is not widely available on the internet or on a company's website. On the rare occasion when PPI can collect price data using this method, all relevant price data must be available and the respondent must consent to allow collection from the company's website.

An e-mail message notifies respondents when it is time to submit their data each month. The message includes a hyperlink to the website of the BLS Internet Data Collection Facility (IDCF). Respondents use an account number and password to access their survey information.

The survey asks respondents to provide information regarding prices, characteristics, transaction terms, and any discounts or surcharges for the selected product or service transactions each month. The online instrument presents information requests in a single view in order to ensure accurate reporting and quick navigation. The PPI program consulted the BLS Office of Survey Methods Research regarding the design of this survey.

PPI continues to offer both traditional mail and e-mail as alternative collection modes for a limited number of respondents who prefer those methods of collection.

#### **4. Efforts to Identify Duplication**

The PPI is the nation's chief source of information on selling prices received by domestic producers of goods and services. Each month the program releases over 10,000 indexes for individual products and services. To ensure that published PPI data is statistically accurate, there is a narrow definition of a valid price. The PPI methodology defines a quality price quotation as the net revenue accruing to a specified producing establishment, from a specific type of buyer for a specific product, shipped under specified transaction terms, on a specified day of the month. BLS has made extensive efforts to identify any other government agencies or other sources of data duplicating these indexes. The BLS has not found any indexes, published by private entities or government institutions that can be considered as a substitute for the PPI.

The PPI program does use data from alternative sources whenever such sources have the best obtainable data and such data can be used in a way acceptable to the PPI methodology. For example, the PPI program uses data from the Department of Agriculture, for the calculation of many commodity-based farm product indexes. Published prices or prices obtained from purchased datasets are also used as valid prices in some cases. These data can be used to calculate indexes alone or they can be blended with survey responses. Such secondary data sources are used when developing hedonic models for quality adjustment. The PPI program continues to seek out and evaluate potential sources of alternative data for use in index calculation. As part of the sample updating process for a particular industry, PPI conducts an industry study, including an environmental scan to identify alternative data producer price information for that industry. To date, this ongoing effort has identified a limited availability of secondary source producer price information.

To further mitigate duplication, PPI shares price information with other BLS price programs in certain situations. In an effort to increase efficiency and reduce overall respondent burden, the CPI, PPI, and the International Price Program may share resources to collect pricing information from respondents that are selected for inclusion in multiple surveys. In these cases, prices for the same product or service may be used by more than one price program; however, each program would determine appropriate weighting according to its own established methodology. All information shared across programs is used for statistical purposes only and is protected under the BLS confidentiality pledge.

#### **5. Impact on Small Business**

The PPI program develops samples using probability sampling. Establishments in a given industrial classification have a chance, based on their size, of being included in the survey sample. The most often utilized size metric is the number of employees. An establishment's chance of selection for the survey sample is proportional to its importance to the industry as a whole. Entities of all employment sizes are included in the PPI survey. This comprehensive coverage is necessary to insure that the collected data are a representative sample of the universe of pricing activity within the respective industry. Small companies collectively carry substantial weight in the price-forming universe of many industrial classifications. Evidence

suggests that the pricing behavior of small firms often differs from that of large ones. Therefore, the PPI program cannot exclude smaller establishments from the survey if the data is to be reliable. However, the sample usually includes more large firms than small ones. The PPI program generally requests fewer price quotations from these smaller establishments than it does from larger establishments. The PPI program holds the opinion that the burden imposed on businesses in general, and small business establishments in particular, is very near the practical minimum consistent with the production of a statistically meaningful index.

## **6. Consequences for Less Frequent Collection**

Legislators and government agencies use the PPI to assist them with developing policy and evaluating the markets. The price adjustment clauses of purchase agreements use monthly PPIs. A failure to provide current accurate monthly statistics would necessitate more complex clauses in contracts and prolong the time required to determine price changes for purposes of escalation.

## **7. Special Circumstances**

A once a month response within a one week time period is required to produce timely and accurate data on a monthly basis. Researchers and market analysts rely on PPIs for monthly economic indications. The PPI program asks respondents to complete questionnaires on or about the same time each month, the Tuesday of the week containing the 13<sup>th</sup> of the month. The PPI program believes that response rates are improved by reporting price data on or around the date that prices are requested. Improved response rates mean that the published index will be much more statistically accurate. The PPI program requests the firm's response within 5 business days because index calculation begins by the end of the same month. Prompt responses allow more time for the PPI program to properly adjudicate, validate, and then process the data into its system and begin index calculation.

## **8. Federal Register Notice and Consultation**

No comments were received as a result of the Federal Register notice published in 85 FR 34656 on June 5, 2020.

The PPI program maintains continual and regular contact with trade groups, academics, and individuals in business. The National Research Council volume on *Principles and Practices for a Federal Statistical Agency* prescribes that agencies obtain outside review through various channels, including standing advisory committees, to ensure "quality and professional standards of practice." The PPI program solicits feedback from several prominent advisory groups. The Voorburg Group On Service Statistics is one such organization. It is comprised of representatives from national statistical agencies from around the world who come together to establish and maintain an internationally comparable methodology for measuring output and producer price indexes for the service industries. The Data Users Advisory Council (DUAC)

is an advisory group that provides the PPI program with points of view of data users from various sectors of the U.S. economy on matters related to the analysis, dissemination, and use of PPI data, its published reports, and on gaps between or the need for new PPI data products. Cooperation in the PPI survey is voluntary; so the PPI program must carefully consider a user's needs when designing surveys, collecting data, presenting indexes, and updating data on a monthly basis. This information is also used to reduce respondent burden as much as possible, since a reduced burden is proven to result in an increased response rate. The PPI also utilizes the advice of the BLS Technical Advisory Committee (BLSTAC), which advises the Commissioner of Labor Statistics on statistical methodology and other technical matters related to the collection and analysis of BLS data.

## **9. Payments to Respondents**

Respondents are not paid and do not receive gifts from BLS or the PPI program for participating. All cooperation with the PPI program is voluntary. Documentation and related information providing examples of the PPI's wide uses are used to communicate the importance of respondent participation.

## **10. Confidentiality**

The Confidential Information Protection and Statistical Efficiency Act, also referred to as CIPSEA, provides consistent government policy to protect the privacy and confidentiality interests of individuals and entities providing Federal statistical programs with information. This law serves both government and private interests. CIPSEA designates individually identifying information for exclusively statistical purposes only and access to such data be restricted. Every request includes a pledge of confidentiality. CIPSEA includes fines and other penalties for any knowing and willful disclosure of individually identifiable information by an officer, employee, or agent of the BLS.

BLS provides respondents with the following confidentiality pledge:

*The Bureau of Labor Statistics, its employees, agents, and partner statistical agencies, will use the information you provide for statistical purposes only and will hold the information in confidence to the full extent permitted by law. In accordance with the Confidential Information Protection and Statistical Efficiency Act (44 U.S.C. 3572) and other applicable Federal Laws, your responses will not be disclosed in identifiable form without your informed consent. Per the Cybersecurity Act of 2015, Federal information systems are protected from malicious activities through cybersecurity screening of transmitted data.*

The PPI program recognizes that data received are proprietary company information. Disclosure could be damaging to the companies responding and their competitive position. The PPI program collects only data essential for the calculation of PPIs. Only authorized persons can access received information and they may use it for strictly statistical purposes. The PPI program only publishes data in an aggregated form that cannot be used to identify

respondents. The initiation interview and all subsequent price quote requests include a reminder that participation is voluntary.

## 11. Sensitive Questions

The PPI program does not collect personal information on individuals. Personal information includes sexual behavior and attitudes, religious beliefs, and any other personal matters that are commonly considered to be private. The PPI survey is limited only to collection of the information necessary for the accurate calculation of the PPI family of indexes.

## 12. Burden

The PPI program estimates the average time burden per respondent for initiation into the survey and for monthly price quotes separately. Initiation is a one-time event requiring an interview with a BLS data collector. Experience suggests it takes about two hours for a given respondent to research data sources, prepare for the interview and provide the initially requested data. Respondent burden varies depending on the company being initiated. Significant factors include the quantity and variety of products it produces and how it keeps records.

Each respondent initiation into the PPI survey is a unique process. The length of time for the initiation interview depends on the firm in question. The BLS data collector records the data during the initiation interview on forms 1810A, A1, B, C, C1, and E. These paper documents guide the BLS data collector through the interview process. The data collector uses a portable computer to enter the collected data for transmission to the BLS national office after the interview. The BLS Office of Field Operations (BLS OFO) has observed over the course of many years that the average initiation interview lasts about two hours. The BLS OFO allocates personnel resources based on this estimate. Each aspect of an initiation interview can require a considerably different amount of time than it would in another initiation interview. This makes assigning portions of this two-hour process to its individual components impractical. Subsequent to the initiation interview, BLS data collectors will telephone a subset of newly initiated respondents, approximately eight percent, to verify a portion of the data collected during the original initiation interview. The primary goal is to ensure the integrity and accuracy of data collected during initiation interviews and that data are consistent with BLS policy, (Commissioner's order 2-96 – Ensuring Quality in the Data Collection Process.) This follow-up contact is estimated to take approximately 15 minutes.

Respondents receive regular requests for price quotes after their initiation into the PPI survey. The request asks for information pertaining to the transactions selected for pricing during the BLS data collector's initiation interview. The survey asks respondents to report any changes in price, product specifications, and transaction terms. The average respondent will spend about five minutes completing the questionnaire according to BLS estimations.

	Number of	Frequency	Number of	Average Time	Estimated Total
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Producer Price Index  
1220-0008

Form	Respondents		Responses (per year)	per Response	Burden
BLS 1810A, A1, B, C, C1, and E	4,305	once	4,305	120 minutes	8,610 hours
	Subset of 4,305 initiation respondents (Approximately 8%)	once	340	15 minutes	85 hours
BLS IDCF	11,640	monthly	735,000	5 minutes	61,250 hours
TOTALS	15,945		739,645		69,945 hours

The estimated annual burden for each of the next three years is as follows:

- a. Number of respondents: About 15,945. Roughly 4,305 respondents are initiated into the PPI annually and approximately 340 of these respondents are re-contacted to ensure data quality. For monthly repricing, about 11,640 respondents are priced each month.
- b. Total annual responses: PPI attempts to initiate 4,305 respondents into the survey on an annual basis. Three sample segments are initiated every year, with roughly 1,435 respondents allocated to each sample segment. From the pool of newly initiated respondents, approximately 340 are re-contacted to verify collected data and ensure data quality. PPI sends, on a monthly basis, about 61,250 price update requests to roughly 11,640 cooperating respondents.

Estimated number of initiated sample units, data quality follow-ups (per year) and repriced quotes (per month):

	<u>Initiation</u>	<u>Data Quality</u>	<u>Repricing</u>
<b>2020</b>	4,305	340	61,250
<b>2021</b>	4,305	340	61,250
<b>2022</b>	4,305	340	61,250

Total number of annual responses:

	<u>Initiation</u>	<u>Data Quality</u>	<u>Repricing</u>	<b><u>TOTAL</u></b>
<b>2020</b>	4,305	340	735,000	739,645
<b>2021</b>	4,305	340	735,000	739,645
<b>2022</b>	4,305	340	735,000	739,645

- c. Total number of annual hours requested:

Estimated average number of hours per response:



<u>Initiation</u>	<u>Data Quality</u>	<u>Repricing</u>
120 minutes	15 minutes	5 minutes

Estimated total hours of annual burden:

	<u>Initiation</u>	<u>Data Quality</u>	<u>Repricing</u>	<u>TOTAL</u>
<b>2020</b>	8,610	85	61,250	69,945
<b>2021</b>	8,610	85	61,250	69,945
<b>2022</b>	8,610	85	61,250	69,945

The BLS estimates the total time-related costs for respondent burden in fiscal year 2020 to be about \$2.4 million. The figure is the product of total hours of annual burden relating to this collection (69,945 hours) and average private industry hourly compensation. The National Compensation Survey (NCS) reported \$34.72 to be the average private hourly compensation in their March 2020 report, table 4. This figure was used to calculate the dollar figure of the annual burden placed on PPI survey respondents.

### **13. Cost to Respondents**

There are no financial costs incurred through initiation or continued participation in the PPI survey.

### **14. Cost to the Government**

The total annual cost to the Federal Government for the collection, processing, and reviewing of data for PPI publication was approximately \$47 million for fiscal year 2019.

### **15. Changes in Respondent Burden**

A decrease in the total number of respondents (26,436 to 15,954) resulted in a decrease of total burden hours requested (105,172 to 69,945). The decline in the total number of PPI respondents is due to a combination of factors, including budgetary constraints resulting in a reduction in both field resources and initiation sample sizes, a downturn in respondent cooperation during initiation, and an increasing rate of attrition for repricing respondents. Additionally, the PPI program is using an improved approach to determine the number of respondents providing data monthly.

As mentioned above, online electronic submission proved to be so effective that PPI initiated an effort to convert all respondents to online data submission. Beginning with February 2018 repricing, online data submission is now the overwhelming mode by which respondents submit their monthly price quotations. PPI does, on a very limited basis, collect price

information from a company's website to reduce respondent burden. When PPI can collect price data using this method, all relevant price data must be available and the respondent must consent to allow collection from the company's website.

The PPI program is also increasing its use of secondary source data in an effort to mitigate respondent burden. For example beginning in 2018, PPI began using a large, purchased database for financial services within the U.S. economy. PPI is using this source to replace directly-collected data for municipal debt securities dealing, corporate debt securities dealing, and equities securities dealing in the investment banking and securities dealing industry. The PPI program continues to look for opportunities to increase its use of secondary source data, but at the current time there is not a widespread availability of data that include the necessary inputs for estimating the change in prices that producers receive for the goods they produce and the services they provide. Furthermore, PPI continually looks to refine its data collection procedures to reduce respondent burden. In fiscal year 2020, PPI plans to initiate a pilot effort to by-pass the initiation process of selecting items and disaggregation and simply to request a respondent-provided dataset of price information for the category.

## **16. Publication**

Collecting PPI data is not a one-time project with a termination date. The purpose of the survey is to collect data for the continual monthly publication of the PPI family of indexes. The PPI is a major economic indicator produced by the BLS.

There are four PPI publication structures, Industry, Commodity, FD-ID to Industry. Industry-based indexes use NAICS codes, while Commodity based indexes track goods according to the end use.

The FD-ID index structure tracks changes in prices for goods, services and construction sold to final demand. There are six main Final Demand price indexes: final demand goods, final demand trade services, final demand transportation and warehousing services, final demand services less trade, transportation, and warehousing, final demand construction, and overall final demand.

The intermediate-demand portion of the FD-ID system tracks price change for goods, services, and construction products sold to businesses as inputs to production, excluding capital investment. The system includes two parallel treatments of intermediate demand. The first treatment organizes intermediate-demand commodities by type. The second organizes intermediate demand commodities into production stages, with the explicit goal of developing a forward-flow model of production and price change. The treatment having to do with intermediate demand by type of commodity organizes commodities by similarity of product. This treatment is composed of six main intermediate-demand price indexes: unprocessed goods; processed goods; trade services; transportation and warehousing services; services less trade, transportation, and warehousing; and construction. There are also PPIs published for special commodity groupings and material and supply inputs for construction industries. In January 2015, PPI expanded coverage of inputs to industry

indexes to include select manufacturing and service industries such as: Paint and coating manufacturing, Automobile manufacturing, Offices of health practitioners, Membership associations and organizations, Plastics products manufacturing, Mining and oil and gas field machinery manufacturing, Airplane manufacturing, Ship building and repairing, and Truck transportation.

The PPI program started publishing variance estimates based on final index calculations in 2016 for the previous calendar year. The PPI variance estimates include data describing PPIs for selected high-level indexes from the FD-ID Aggregation System. The FD-ID system represents the primary method to analyze producer inflation at the aggregate level. These variance estimates are updated on an annual basis. In that same year, the PPI program introduced new regional indexes for New Nonresidential Building Construction and Natural Gas Distribution. This increased the PPI program's overall coverage of the United States' economy.

See the attached copy of the PPI Detailed Report for a full accounting of what PPI data are available. In addition, all PPI indexes can be accessed through the BLS website.

### **17. Display of Expiration Date**

The PPI is requesting an exemption from the provision within 5 CFR 1320.5 that requires that a current expiration date be affixed on OMB cleared forms. The PPI forms are 1810A, A1, B, C, C1, and E. A printed expiration date would restrict PPI's ability to use these same forms in subsequent years. Without receiving a waiver of the printed expiration date requirement, the PPI will be required to discard otherwise-useable forms at the end of the three-year window, it will incur additional printing costs, and it will be required to expend additional resources and staff time toward preparing updated camera-ready forms.

### **18. Exceptions to Certification**

There are no requested exceptions to the certification statement "Certification for Paperwork Reduction Act Submissions."