

Producer Price Index Sri Lanka

The Producer Price Index (PPI) improves estimates of economic growth for Sri Lanka. The PPI also provides a more complete picture of the price movements of the Sri Lanka economy. The well-known Consumer Price Index (CPI) measures changes across time in the prices paid by consumers for goods and services. The CPI measures price change for the consumer sector of the economy. The PPI measures the relative change over time in the prices received by domestic producers. In Sri Lanka, the PPI covers the Agriculture, Manufacturing, and Utility sectors of the economy. The PPI serves as the deflator of the Gross Domestic Product (GDP) of Sri Lanka. Reflecting international best practices, the weight, price, and index references have been updated in 2021. In contrast to the previous index, there are some notable features in the updated index.

1. Expanded geographical coverage for the manufacturing section:

The PPI was introduced in 2015 for the first time in Sri Lanka, so far the index used to measure the price movements of the manufacturing establishments concentrated only in three provinces of the country. To make a more complete picture, it is essential to consider the overall country. With the update, the index now covers six provinces. Prices are collected across a broader geographical area that includes those areas where more producers are located and reflects a broader range of industries. Agriculture covers the entire country as in the previous index.

2. More recent years for weight and price references:

The previous PPI used the market output values of establishments as of the Annual Industry Survey (ASI) 2010 as weights references. These weights were outdated and did not reflect the current structure of the Sri Lankan economy. With the updated index, the weight reference period has been updated to values of ASI 2016. National accounts estimates of total market output were used to adjust the data. The price reference period has also been updated to the 2018 fourth quarter. These changes to the index will reflect more recent dynamics of the economy.

3. Inclusion of new important economic activities and changes of weight structure:

Updating the weights was important to ensure the weights reflect important changes to the Sri Lankan structure too. The relevant importance of sub-economic activities also changed accordingly. The change of weight reference of the PPI to a more recent year reflects these changes of the economy, hence a set of new sub-divisions has been included in the updated PPI. At the same time, a few divisions that existed in the old PPI have been removed because they are no longer significant. The following table shows the main differences between the old and new PPI series.

Feature	PPI [2013 Q4 = 100]	PPI [2018 Q4 = 100]
1. Weight Referances	ASI 2010	ASI 2016
2. Price Referances	2013 Q4	2018 Q4
3. Geographical Coverage	Western, Southern & Central Provinces	Western, Southern, Central, North Western, North Central & Sabaragamuwa Provinces
4. Total Sections	Agriculture, Manufacturing & Utility	Agriculture, Manufacturing & Utility
5. Total Sub Divisions		
I. Agriculture	2	3
II. Manufacturing	13	14
III. Utility	2	2
6. Sections Contribution to total weights		
I. Agriculture	27%	12%
II. Manufacturing	67%	85%
III. Utility	6%	3%

7. Weight Structure of new index for the base period (2018 Q4 = 100):		
Section	Division	Share (%)
A: Agriculture	1) Growing of non peranian crops	4.34
	2) Growing of peranian crops	4.73
	3) Animal production	2.54
C : Manufacturing	1) Manufacture of food products	23.29
	2) Manufacture of beverages	5.79
	3) Manufacture of tobacco products	8.26
	4) Manufacture of textiles	8.53
	5) Manufacture of wearing apparel	15.76
	6) Printing and reproduction of recorded media	1.75
	7) Manufacture of coke and refined petroleum products	1.94
	8) Manufacture of chemicals and chemical products	3.04
	9) Manufacture of rubber and plastics products	2.59
	10) Manufacture of other non-metallic mineral products	6.26
	11) Manufacture of basic metals	2.29
	12) Manufacture of other transport equipment	0.51
	13) Manufacture of furniture	2.17
	14) Other manufacturing	2.08
D: Utility	1) Electricity, gas, steam and air conditioning supply	3.35
	2) Water collection, treatment and supply	0.78

8. Inclusions & exclusions of the sub divisions:		
Section	Inclusions	Exclusions
A: Agriculture	011 Growing of non perianial crops	011 Growing of crops
	012 Growing of perianial crops	
C : Manufacturing	10 Manufacture of food products	15 Manufacture of food products and beverages
	11 Manufacture of beverages	
	18 Printing and reproduction of recorded media	22 Publishing, printing and reproduction of recorded media
	31 Manufacture of furniture	31 Manufacture of electrical machinery and apparatus n.e.c.
	32 Other manufacturing	36 Manufacture of furniture, Manufacturing n.e.c.

*In the Utility sector the section name was changed as “Electricity, Gas, Steam and Air conditioning supply and Water collection, treatment and supply”. No changes made to the sub groups.

4. No changes to the index calculation methodology:

The purpose of any price index is to measure the relative change of the price of an item, between two-time points. The DCS uses the Modified Laspeyres Index calculation method. This formula is more flexible than the standard Laspeyres and has a number of key advantages. The modified Laspeyres easily facilitates the introduction of new varieties, items, and outlets. This formula also makes the treatment of missing prices much easier. In the PPI index calculation, the department uses Modified Laspeyres Index method from the beginning, with the rebased PPI the same method is used. Industry indexes are calculated as a weighted average of the individual product indexes. Each upper level index is calculated as the weighted average of its subcomponent indexes. The total PPI is calculated as a weighted average of the activity indexes (Agriculture, Manufacturing, and Utilities).

5. Treatment of Missing Prices:

The price of a product may not be present in a particular time (month) either due to seasonality or due to permanent discontinuity. These two types of missing values are treated in different ways in index calculation. For temporarily missing prices, these prices are imputed by the average price change for the prices that are available in the elementary aggregate. This imputation method has a neutral effect on the index and ensures that the index fully reflects the price change of the available, collected prices. When the price returns, the index reflects the correct level.

For permanently missing prices, a replacement item is selected. A detailed specification is developed that includes the item description and terms that define the transaction price. Any change in the price

determining characteristics requires a quality adjustment. This ensures that the index reflects only pure price change and not changes due to differences in quality. The DCS uses the indirect methods for quality adjustment. First, staff attempt to collect an overlap price. This means that the price of the old and the new item are available in the same period. The overlap price for the new item is used in the calculation of the index. Any difference in price between the old and new item in the overlap period is considered quality change. Second, if no overlap price is available, the price of the old item is treated as temporarily missing and imputed. When there are two consecutive periods of prices for the new item, the old item is dropped and the new item is used in the calculation of the index. This method ensures that the index does not reflect quality changes as price change.

6. Advanced date for data dissemination calendar:

Data dissemination is advanced by 5 days with the new release of PPI. The data used to be published with a 45 day lag on the 15th day of the every month. Beginning with the release of the updated PPI in November 2021, data are now published with a 40 day lag on 10th day of every month from November 2021.