CPI/PPI Transcript

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Welcome to the webinar on calculating price adjustments using the CPI and PBI. The purpose of this class is to help our procurement managers understand how the states standard clauses for price adjustments work within our solicitations and then how we use those clauses to indicate to the vendors how we're going to calculate those price adjustments.

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And based on what index we're going to use. During this class today we're gonna talk about these following topics.

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1st we'll discuss the differences between the CPI and the PPI indexes. The state has 3 standard price adjustment clauses that reference either the CPI or the PPI.

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In those clauses we have the following 4 methods to determine a price adjustment. We'll look at each of these 3 clauses and walk through the process of determining the percent change in each of the 4 methods listed here.

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The producer price index is a family of indexes that measures the average change over time and the selling prices received by domestic producers of goods and services.

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PPIs measure price change from the perspective of the seller. This contrast with other measures such as the consumer price index, the CPI, that measure price change from the purchaser’s perspective.

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The target set of goods and services included in the PPI is the products purchased by other producers as inputs to their operations or as capital investment.

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Goods and services purchased by consumers either directly from the service provider or indirectly from a retailer.

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And products sold as export and to government. The target set of items included in the CPI is the set of goods and services purchased for consumption purposes by urban US households.

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Simple way to remember the differences and the PPI is typically used for commodities and CPI is typically used for services.

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Prior to issuing your solicitation, you need to decide if you're going to include price adjustments.

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If you decide to consider price adjustments in your solicitation, you'll need one or more of the following clauses.

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At the top of the slide we can see that there are 2 required clauses. The changes clause and the price adjustments clause.

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When you read the guidance for these 2 clauses in the compendium. They are both supposed to be used together at all times.

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If you use these clauses, you're indicating that you are going to have price adjustments in your solicitation.

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If you do so, then you'll need to use one or more of the following optional but recommended clauses.

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Typically, we recommend you use the Price Adjustments Limited After Initial Term Only clause that makes the vendor hold their pricing for the full initial term of the contract.

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If you're going to. Restrict your price adjustments to one of the limiting factors and you'll want to use the Price Adjustments Limited by CPI All Items clause.

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Or Limited by CPI Other Than Goods and Services clause. Or Price Adjustments Limited by PPI.

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Note that all these clauses are in section 7B of the uniform solicitation format.

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So let's start looking at the CPI and other goods and services clause. This is the state's standard clause for the CPI, other goods and services.

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The important parts of the clause that dictate what we need to look for are highlighted. Those items are unadjusted percent change.

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Most recent 12 months. Not subject to revision. And for all urban consumers. These items are important because they're going to dictate exactly which report we need to pull from the Bureau of Labor and Statistics website.

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The easiest way to determine what the unadjusted percent change for CPI, other goods and services, is to use Table 7 of the CPI database.

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The PDF version of the table is shown here as an example. Later we'll go through the process of finding this information and doing the calculation to determine the percent change.

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Look at the top of the page where the black box is entitled, Unadjusted Percent Change, March 2023 to March 2024.

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This report will have the most recent completed data. So those states will change from month to month. This data is accurate to the requirements of the previous slide that we must use the same start and end month.

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Near the bottom of the page, you can see where we highlighted the other goods and services line and specifically the percent change, which in this case is 4.7% between March 2023 and March 2024.

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There are 2 ways to get to table 7. The 1st is using the link on the slide to get to the CPI news release.

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This is the most current version of the CPI reports. You can use any of the formats offered by the site, but I recommend using the PDF version as it is easy to save and supporting an augmentation.

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Click on PDF and a new window will open with the full PDF file. Here is where the link takes you and you can see here on the website it's a listing of the different types of formats you can click on to get the report. By clicking on the PDF version of the report. A separate screen opens and gives us that report.

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This part of the report for what we are looking for is near the very end and this report is 38 pages long. And as we scroll down to next to the very last page on page 37. Is the information we're looking for.

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And this listed right here to the very bottom of the page. And you can see that the information here is the same as we saw on the previous slide.

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So let's take a look at the CPI, other goods and services clause. This is the state standard clause for the CPI, other goods and services.

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The important parts of the clause that dictate what we need to look for are highlighted. Those are unadjusted percent change, most recent 12 months, not subject to revision, and for all urban customers. These items are important because they are going to dictate exactly which report we need to pull from the Bureau of Labor and Statistics website.

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The easiest way to determine what the unadjusted percent change for CPI, other goods and services is to use Table 7 of the CPI database.

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The PDF version of the table is shown here as an example. Later we'll go through the process of finding this information and doing the calculations to determine the percent change. Look at the top of the page where the black box is entitled. Unadjusted percent change March, 2023 to March, 2024.

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This report will have the most recent completed data so these dates will change from month to month. This data is accurate to the requirements of the previous slide that we must use the same start and then month.

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Near the bottom of the page, you can see where we highlighted the other goods and services line and specifically the percent change which in this case is 4.7% between March, the 2023 and March, the 2024.

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There are 2 ways to get to table 7. The 1st is using the link on the slide to get to the CPI news release. This is the most current version of the CPI reports. You can use any of the formats offered by the site, but I recommend using the PDF version as it is easy to save as supporting documentation. Click on PDF and a new window will open with the full PDF file.

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This is a screenshot of the 1st page of the report. Notice at the top of the screenshot that there are 38 pages in this particular report.

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The other goods and services portion we are looking for is far back in the report. And this example, the table 7 we saw 2 slides back was on page 37 of the report and we should typically be one of the last entries in the report.

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This is the website where the link takes you and you can see here in this row where they have the different formats for the report. We're going to click on the PDF report. And this brings up the index that I showed you just before.

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As you can see here at the top there are 38 pages in this report and we are going to scroll all the way down to the end of the report on the left-hand side to page 37 and down here near the very bottom is the information we were looking for that was shown on the previous slide. And you can see that it is 4.7%. Just like the table and the previous slide indicated.

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The other way to get to that report is to use a link on this slide. The second method use the Link on the slide to get you to the economic releases tab of the website.

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You can see a link for each tab of the CPI report on this page and you can go directly to that table in the report.

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The link to the PDF version of the report takes you directly to the report we saw earlier. Clicking on the link for table 7 will result in a new page opening. This is where that link takes you and you can see down here near the bottom of the page. The link to table 7. And you click on that link and it takes you to a different type or different format of the report but it is still the same information.

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And if we scroll all the way down to the bottom of the report. We will find the other goods and services information we are looking for and that is right here. And you can see that the information is identical and it is still 4.7%.

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So we've seen 2 ways to get to table 7 to identify the CPI other business services percent change. Now let's determine this change manually. To do that, we're going to follow this link appearing on the slide.

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And we're going to look at the page when the very center where it says prices, consumer. And then remember our clause talks about all urban customers. So we're going to use that series to determine our percent change. And then we're going to move over here to where it says one screen data search and we're going to click. On that screen.

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Once we click on that screen, it opens up a new window and takes us here, but all the data is empty.

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The 1st thing we're going to do is we're going to go to select an area. And number one, we're going to click on US city average.

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Once we do that, it's going to populate the second selection area on the right-hand side.

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Once we get there, there's going to be a lot of information that we don't need. So we're going to type in the selection area. Other goods by typing other goods that's going to pull up the information that we're looking for.

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Once we've typed up other goods and we've clicked it. Clicked on other goods and services, we're then going to move down to number 3 and we're going to make sure that seasonally adjusted is not checked because if you remember our clause says we want the unadjusted percent change.

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Once we do that, we're going to come down here to the bottom left of the screen and we're going to click add to selection and that will move the report we're looking for into our selection box.

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So, Once we've done that, we'll move over to the get data box and we will click on that. And that results in this report.

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Notice in the header that once again the system is clarifying the type of report and in the series title lines confirming the data you selected earlier. So the series title says, other goods and services. US city average. All urban consumers and not seasonally adjusted.

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Using the CPI data table 7 is good if you need the current report. This report is better if you need to manually calculate the percentage change for something other than the current report.

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For example, a vendor request a price adjustment in December and you forget to process it until they remind you in April.

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Let's go back to our clause about something we haven't discussed yet, which is the most recent 12 months meeting.

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We need to base that off when the vendor makes the request. For example, if the request is made in July, then we need to calculate the most recent 12 months starting with July and working our way backwards. Our example in this part we are using March, 2024 as when we receive the request from the vendor.

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Before we begin to do our calculations we need to understand that this is important and must be consistent throughout all CPI PPI valuations.

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In order to have an accurate over the year percent change you must always use the same starting slash ending month. In this example, they use May, 2,015 and May, 2,016. This reference is from the BLS website and applies to those CPI and PPI calculations.

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Here we have identified the 12 months that we will use in our calculation and those months are March, 2023 and March, 2024.

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This is our formula for all calculations on CPI and PPI percent change. The formula is percent change equals new value minus original value. Divided by the original value. Times 100. So that means the difference between month 12, which is March, 2024. Minus month one, which is March, 2023, divided by month one. March, 2023 times 100.

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In our example, you can see that our month 12 figure is 553.666. Minus our month one figure, 528.811 equals 24.855.

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We take the difference between the 2, 24.855. We divide that by month 1, 528.811. And that equals point 047. We multiply the .047 times 100 which equals 4.7 or 4.7%. So the CPI for the most recent 12 month period not subject to revision is 4.7% and you can compare that to the CPI table 7 data of 4.7% change for the same period.

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Now let's talk about calculating the percent change for the CPI all items clause.

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As a reminder, here's our clause with the important parts highlighted. Remember, those are unadjusted percent change, most recent 12 months, all urban consumers and all items for services. And let's do this live online.

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By following the link on the slide, it will take you to this page. And remember we are talking about the CPI all items.

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So again on this part of the page this is our consumer prices which is the CPI we're looking for and then we're going to use the current series for all urban consumers and we're going to come over here to our one screen so that we can enter our information. And you can see that pulls up a new window.

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So in this demonstration, we're looking for all items which means we're going to select The US city average and we're going to come over here to number 2 and select all items because that's the index we're looking for.

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We're going to scroll down to number 3 and make sure that seasonally adjusted is not checked because we want that unadjusted percent change.

and then we're going to click add to selection. And then here is the items that we want to see. Once we click on the get data tab, it pulls up our new screen and here is our information.

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Notice that the March 2024 number is 312.332. For the purposes of this demonstration, we'll go back to the slides.

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So table 7 is a good reference for the CPI all items, but it's the very 1st entry in the table, but let's do this manually and learn how to do it.

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As a reminder, here's our clause of the important parts highlighted. The unjust percent change, most recent 12 months, all urban consumers, and all items for services. And let's do this live.

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Here we are. The link takes us to this page where all of our tables are. And remember, this is our prices for the consumer, so that's consumer price index and we want the all urban consumer series and we're gonna come over here to the one screen. And click on that.

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As you can see, it opens up a new screen for us. And this is where we're gonna enter our data. So we're looking for the CPI all items. So we're going to click on the US city average.

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In area one and then in area 2 we're gonna click on all items it's right there at the very top so no reason to search for it. We're gonna come down to area 3 and click on seasonally adjusted to make sure we don't get that information because we want the unseasonally adjusted. And then we're going to click on add to selection and that puts the data we're looking for in our selection box.

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As we said before, we're gonna click on the Get Data Tab. And this is the report that is produced for us. It is the all items, US city average, all consumers, not seasonally adjusted report. And so let's go back to our slide presentation and see how this looks there.

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This is the same report we just saw online and we've talked about the percentage change from before and it does not change. It is still the same formula that being the difference between month 12, which is March, 2024 minus month one, which is March, 2023.

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Divided by month one, which is March, 2023 times 100. And you can see here that we have indicated the dates that we'll be using, which is March, 23 and March, 2024.

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The numbers in this example are the same as for table data I'm sorry table 7 and the numbers are 312.332 is our month 12 figure for March 2024, Minus 301.836, which is our figure for March 2023 the difference equals 10.496.

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We take the difference of 10.496, divide that by the month one figure of 301.836 and that equals point 0347. We multiply that by 100 and then that equals 3.47 Or 3.47%.

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CPI all items for the most recent 12-month period not subject to revision. Is 3.47%.

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So now that we've looked at the 2 CPI methods, let's look at the PPI, all commodities and determine that percent change.

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Here is our standard PPI clause with the parts that are important to our task highlighted. Those are unadjusted percent change, most recent 12 months, not subject to revision, applicable commodity as determined by the procurement officer.

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The last one is important. And we'll talk about it more later, but for the process we're using right now, it isn't relevant.

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Now that we've completed our CPI calculations, let's take a look at our 1st PPI. Which is the PPI all commodities. Here's our standard PPI clause with the parts that are important to our task highlighted.

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Unadjusted percent change, most recent 12 months, not subject to revision, applicable commodity as determined by the procurement officer.

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This last one is important and we'll talk about it more later. But for the process we're using right now, It's not important.

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The PPI table 9 is the equivalent of the CPI table 7. However, The PPI table 9 uses components that are contrary to our clause.

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Notice that table 9 is using provisional data, which is indicated with the P designator within the cell. We will not use Table 9 for our PPI calculations.

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You can see at the lower part of the slide here that this figure has a P in the cell and the definition is down here which indicates its preliminary data. Remember, we cannot use any data that is subject to revision. So PPI table 9 is not good for our purposes.

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So let's take a look at how to calculate and find the data we're looking for.

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We're back here on our same screen on the BLS website except now we're down here where it says prices producer which is our PPI data.

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Our clause is specific to commodity data and not industry data so we want to make sure we're using this commodity data, including the headline FD-ID indexes. And once again, we're going to come back over here to our one screen and click on that.

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So in this demonstration, we are looking for all commodities and once again that is at the very top of our groups.

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So in group one, we're going to select all commodities. And then once we do that, you can see over here in area 2 that is the only choice left for us to click on. So we will click that. Will come down to area 3 and click on seasonally adjusted to make sure we're not including that information. And then we are gonna click on add to selection. And then we will click on Get Data.

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And here is the report that we produced and you can see at the series title across the top. PPI commodity data for all commodities not seasonally adjusted Which matches what our clause says.

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And if you look down here, you'll see that the March, 24 data is 255.140, but that is preliminary data so we can't use it. So let's go back to our slides and see how we calculate this.

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Here's the same data that we just showed you on the live screen. As you can see, these 4 blocks starting here and then the remaining 3 here all have P indicating they are preliminary data. That does not meet the requirement of our clause so we cannot use that data.

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So the data we're going to use will be the most recent 12 months that is not subject to revision, which is November, 2022 through November, 2023. As you can see in the middle of the screen, our formula has not changed.

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The percent difference equals the difference between month 12, November, the 2023, minus month one, November, 2022, divided by month one, November, 2022 times 100.

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So using our figures from the table, we can see in our example. That month 12 the figure is 252.856, minus our month one, which is 263.157,

equals negative point 10.301. We take the negative 10.301 divide that by 263.157 and that gives us a negative of point 039. We multiply that times 100 and that gives us a negative 3.9 or a negative 3.9%.

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The PPI for the most recent 12-month period not subject to revision is negative 3.9%. What that negative indicates is that the market has shifted lower instead of prices increasing, prices have actually lowered over the last 12-month period.

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So let's look at the percent change for a specific commodity under the PPI. And for our example here, we're going to be using copy and printer paper and let's do this live.

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So here we are back at the same website, okay, and we're looking for printer copy paper, so we're coming down here to the prices producer, which is our PPI information. We're coming down to the commodity data because that's what our clause indicates we'll use.

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And then we're coming over here to one screen and clicking on one screen, which brings up a new window.

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So in this case, we're looking for a specific commodity. So we're going to start over here in area one and we're going to search on paper.

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And once we do that, it brings up this. Group 9, pulp paper and Allied products. Once we select on that, it's going to reduce the number of our search terms that we have over here in area 2.

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So let's look for copy paper since that's what we want to get a price on.

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So that yields no result. Copy is not something that is listed in the index. So let's go back. We're also looking for printer paper. So let's look for print, which is a simpler word than printer.

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And then once we do that, you can see that all these series numbers start with 09 over here on the left hand side of our results. And as we scroll through, we want to look for the one that fits best. For our product or our commodity.

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And as we scroll through, we don't see anything that really matches a copy paper or a printer paper. So we want to use the one that best fits and that goes back here at the top.

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And we're gonna use 091301, which is writing and printing papers, which after review is our best fit.

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We're gonna come down here to area 3 and we’re gonna check seasonally adjusted to make sure we don't have that data. We're going to click add selection. Our selection shows up in the selection window. And then we're going to click Get Data.

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Once we click Get Data, it brings up this screen for us and this should look just like the other one.

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And up at the top of the series title it says PPI commodity data for pulp paper and allied products writing and printing papers not seasonally adjusted.

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So let's go back to the slides and see what our calculations look like.

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This is the same table. You just saw on the screen a moment ago. And once again, you can see that down here and these 4 blocks, we have the preliminary marker which means that data is subject to revision so we can't use it.

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So we're gonna go back to our clauses and our clause states that we have to use the most recent 12 months for which data is available and that's not subject to revision. So for our purposes here that's going to be November, 2022 and November, 20th 23.

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So here's our same table and that we've highlighted our 2 months that we're going to be using and once again our formula is the same.

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Let's look down at our example where our month 12 data is 239.997 and we're subtracting the month one data which is 243.060.

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That gives us a negative 3.063. We take the negative 3.063, divide that by our month one data 243.060. And that equals negative point 01260.

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You multiply that times 100 we get a negative 1.26 or negative 1.26% the PPI for the most recent 12-month period not subject to revision is negative 1.26% which means again that the market has gone down and has not gone up.

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So now that we've determined what our percent changes are, how do we apply those to our pricing?

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There are 2 methods to calculate that. The 1st method is to take the unit price and multiply at times the percent change. And add that to the current unit price and that will give you the new unit price. So for example purposes here, our current unit price is $100 and our percent change is 2.5%.

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So you multiply 100 times point 025. And that gives you 2.5. You add that to the unit price of $100 and your new unit price is $102.50.

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The second method is to take the unit price and multiply times 1 point. And then the percent change and that equals the new unit price.

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So in this example, our unit price of $100 is multiplied times 1.025.

And that gives us the new unit price of $102.50. Either method works with any set of numbers.

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Another example you see here at the bottom is how we price fuel. Fuel is typically priced as a markup or a markdown against the Opus daily reports and that's normally at the 4th decimal place, sometimes the 5th decimal place.

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And so in this example, our current unit price is .1234. Our percent change is 1.8%. So we multiply .1234. Times 1.018 and our new unit price is .1256 cents.

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So part of publishing your solicitation, you need to consider the following. Which is the most acceptable to use the CPI or the PPI?

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That depends on your product service, but you need to research this before you publish. Is there a PPI index for their product you are purchasing?

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We have seen some instances when there was no PPI for a contract that was awarded. So you don't want to make that discovery when the contract is already in place.

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Can we specify which index we will use on the contract? Yes. However, the BLS retires indexes from time to time and you wouldn't want to be in year 4 of a contract and the index you based your adjustments off of is no longer valid.

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Are there indexes outside the CPI, the PPI that are specific to your market that would be a better gauge for your product or service?

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We learned the hard way a long time ago that the CPI all items is not a good index to use for adjustments on fuel contracts because it's not going to give the proper percentage that we need.

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Are there other methods that would be better support the market for that particular product? If so, you'll need to modify one of the price adjustment clauses to indicate which index will be used.

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And finally, do you need a price adjustment clause at all? If you are doing a 1-time purchase, you should need a price adjustment clause.

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For your help and for your assistance. We have consolidated all the links that were used in this presentation here to this one page.

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All of these will take you exactly to the sections that you have seen as part of the presentation. The one thing we have not shown you is this one right here called percentage calculators, for doing percentage calculations.

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And that page is here. This is where the link takes you as you can see there are 10 different calculators. That you can use for any kind of change you may have to use.

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So won't be used most often is the percentage change calculator. Which takes us here and what we can do is input the initial value Of any, table and then the second value. The final value is they call it and that will automatically calculate the difference and the percent change for us.

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So let's use a good example from one of the things we looked at before. In this example, we're going to use the June, the 22 and the June, 21 value of the all items.

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And so our June, 2021 value, which is our initial value, is 228.9. Our final value, which is our June, 2022 value, is 273.251.

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And you can see that this is automatically calculated for us. The difference is 44.351 and the percent change is 19.3757.

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So between June,20 21 and June, 2022. The percent change for the PPI all commodities was 19.3757 or 19%.

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Hope you've enjoyed this class on calculating price adjustments using CPI and PPI. You can see my information on the screen. If you have any questions, please feel free to reach out to me and I hope you have a blessed day.