

# United States Producer Price Index for Banking NAICS 522110 and 522120

---

**Roslyn Swick**

Chief, Branch of Industry Pricing  
Producer Price Index



# Pricing Methodology

---

## User cost approach

The user cost for a financial product is the difference between its revenue and the sum of the implicit and explicit costs

# Alternative Methodologies

---

## Earning assets (or assets) approach

- Banks are considered *intermediaries* between holders of liabilities and those receiving funds
- Loans and other bank assets are considered output while deposits are inputs
- Banks provide substantial services to depositors that are excluded under this approach
- Output measured by earned interest for loan services and fees for all other banking outputs

# Alternative Methodologies

---

## Value added (or cost of funds) approach

- All assets and liabilities have some characteristics of output
- No mutually exclusive distinction between inputs and outputs
- Explicitly uses operating costs to measure output as the difference between the interest earned on loans and the interest paid on deposits

# Issues

## Turnover data

<b>NAICS 522110</b>	<b>2002 PPI*</b>	<b>2002 Census*</b>
Primary services	407,060,708	407,060,708
Loans	176,461,060	337,390,755
Deposits	192,670,978	31,741,283
Trusts	14,754,637	14,754,637
Other banking services	23,174,033	23,174,033

\* Excludes non-employer data

# Issues

---

## Time value of money

- Loans and deposits - adjusted once a year by the annual change in the gross domestic purchases price index calculated by Bureau of Economic Analysis
- Trust services - adjusted by the rate of return earned on the fixed assets

# Issues

---

## Negative prices

- Service having a 'price' that is always a negative is not considered to be output, but rather an input to the production process
- If a price is occasionally negative, it is not used in index calculation for the month in which it is negative
- Industry-specific reference rate is primary cause of occasional negative prices

# Issues

---

## Average prices

- Variation in the number of days in a month contributes to some price volatility
- In longer months, banks have additional time to collect/pay interest and fees
- Balances can also change, but the impact is unclear



# Issues

---

## National Accounts use of PPI banking indices

- Currently, unable to use because:
  - ▶ More detailed deposit indices required
  - ▶ Require separate deflator for fees and interest
  
- Revision of banking PPI starts next year
  - ▶ May be able to provide more detail in the deposit indices
  - ▶ May be able to calculate special indices for fees only (interest only indices could be imputed from PPI banking industry indices and corresponding fees special indices)

# Contact Information

---

**Roslyn Swick**

Chief, Branch of Industry Pricing  
Division of Industrial Prices and Price  
Indexes

[www.bls.gov/ppi](http://www.bls.gov/ppi)

202-691-7748

[swick.roslyn@bls.gov](mailto:swick.roslyn@bls.gov)

