

Import and export price trends in 2006

Import prices rose for the fifth consecutive year, and export prices experienced their largest increase in 18 years; the rise in corn and soybean prices led the increase in export prices, while the continued rise in costs for energy and metals influenced overall increases in both the import and export price indexes

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Import prices increased 2.5 percent in 2006—the fifth consecutive annual increase for this index—following an increase of 8.0 percent in 2005. Import prices excluding energy goods increased 2.9 percent, compared with a more modest 1.1-percent increase in 2005. Export prices were up 4.5 percent, compared with a 2.8-percent increase in 2005. The rise was the largest year-to-year increase since the index rose 5.5 percent in 1988. Excluding agricultural products, export prices rose 3.7 percent, following a 2.6-percent increase the year before. (See table 1.)

As in 2005, the increase in energy prices influenced the overall increase for import prices in 2006. Geopolitical instability and supply concerns drove energy prices higher for the first 8 months of 2006; however, due to price declines that occurred later in the year, overall price increases were much slower than in 2004 and 2005. Metals and energy prices continued to increase in 2006, impacting overall increases for both import and export prices. Prices for industrial metals, namely aluminum and copper, along with prices for iron and steel remained

high in 2006 due to strong industrial and international demand. The continued price increase for both metals and energy prices put upward pressure on finished goods prices, namely automotive vehicles and capital goods.

In contrast to 2005, the U.S. dollar weakened against the Euro, United Kingdom (U.K.) pound, and Swiss franc in 2006, impacting import prices for capital goods, consumer goods, and, to a lesser extent, automotive vehicles.

Other price measures

The Consumer Price Index for All Urban Consumers (CPI-U) increased at the same rate as the Import Price Index in 2006. As was the case with the Import Price Index, the CPI-U also experienced smaller increases compared with the previous 2 years, with energy prices playing a smaller role compared with 2004 and 2005. (See chart 1.)

Overall, the CPI-U increased 2.5 percent in 2006, slower than the 3.4-percent in 2005 and 3.3 percent in 2004. The energy component of the CPI-U rose 2.9 percent in 2006, compared with 17.1

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Table 1. U.S. import and export price indexes annual percent changes for selected categories of goods, 1997–2006

| End use | Description | Relative importance, November 2006 ¹ | Percent change for 12 months ended in December— | | | | | | | | | |
|--|---|---|---|-------|-------|------|-------|------|------|------|------|------|
| | | | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| Imports | | | | | | | | | | | | |
| | All commodities..... | 100.000 | -5.2 | -6.4 | 7.0 | 3.2 | -9.1 | 4.2 | 2.4 | 6.7 | 8.0 | 2.5 |
| | All imports excluding petroleum..... | 82.778 | -2.8 | -3.3 | .0 | 1.3 | -4.5 | .3 | 1.2 | 3.7 | 2.4 | 1.9 |
| | All imports excluding fuels..... | 80.324 | — | — | — | — | — | .0 | 1.0 | 3.0 | 1.1 | 2.9 |
| 0 | Foods, feeds, and beverages..... | 4.488 | 1.3 | -3.1 | -3 | -4.0 | -4.7 | 5.9 | 3.0 | 8.0 | 5.4 | 4.3 |
| 1 | Industrial supplies and materials..... | 35.271 | -10.4 | -17.1 | 33.7 | 13.8 | -24.6 | 21.9 | 9.5 | 22.0 | 25.5 | 5.0 |
| | Excluding petroleum..... | 18.050 | -1.7 | -6.7 | 5.1 | 11.2 | -14.6 | 5.8 | 7.2 | 16.4 | 11.3 | 4.6 |
| | Excluding fuels..... | 15.596 | — | — | — | — | — | 3.6 | 6.3 | 13.4 | 4.4 | 11.1 |
| 10 | Fuels and lubricants..... | 19.675 | -23.8 | -36.5 | 114.7 | 27.1 | -41.9 | 53.7 | 13.2 | 31.5 | 43.5 | .9 |
| 100 | Petroleum and petroleum products... | 17.221 | -25.5 | -40.8 | 137.2 | 17.6 | -39.5 | 56.9 | 12.8 | 30.3 | 42.4 | 5.3 |
| 2 | Capital goods..... | 21.560 | -7.4 | -5.0 | -3.3 | -2.1 | -2.7 | -2.4 | -1.1 | -8 | -1.3 | .5 |
| | Excluding computers, peripherals, and Semiconductors..... | 15.091 | -4.7 | -2.1 | -1.8 | -1.1 | -1.0 | -1.3 | 1.2 | 2.0 | 1.2 | 2.3 |
| 3 | Automotive vehicles, parts and engines..... | 14.691 | .5 | .0 | .7 | .7 | -.2 | .5 | .9 | 1.8 | .4 | .7 |
| 4 | Consumer goods, excluding automobiles..... | 23.989 | -9 | -1.3 | -4 | -1.2 | -.8 | -.7 | .1 | .9 | .6 | 1.4 |
| Exports | | | | | | | | | | | | |
| | All commodities..... | 100.000 | -1.2 | -3.4 | .5 | 1.1 | -2.5 | 1.0 | 2.2 | 4.0 | 2.8 | 4.5 |
| | Agricultural commodities..... | 8.115 | -2.9 | -9.3 | -6.8 | 3.1 | -1.8 | 8.0 | 13.4 | -5.9 | 4.9 | 13.5 |
| | Nonagricultural commodities..... | 91.885 | -1.0 | -2.7 | 1.2 | .9 | -2.5 | .4 | 1.3 | 5.0 | 2.6 | 3.7 |
| 0 | Foods, feeds, and beverages..... | 7.350 | -3.3 | -8.3 | -5.7 | 1.7 | -.5 | 7.9 | 12.6 | -4.5 | 4.3 | 13.8 |
| 1 | Industrial supplies and materials..... | 30.132 | -1.4 | -7.1 | 5.3 | 3.6 | -8.6 | 5.0 | 6.8 | 15.1 | 8.4 | 9.0 |
| | Nonagricultural industrial supplies and materials..... | 28.638 | -1.3 | -6.9 | 6.3 | 3.3 | -8.4 | 4.8 | 6.3 | 16.6 | 8.5 | 9.2 |
| 2 | Capital goods..... | 39.585 | -1.6 | -1.8 | -1.1 | .3 | -.8 | -1.3 | -6 | .7 | -.5 | 1.1 |
| | Excluding computers, peripherals, and semiconductors..... | 30.193 | -3 | -7 | -4 | .8 | .0 | .5 | .9 | 2.1 | 2.1 | 3.0 |
| 3 | Automotive vehicles, parts and engines..... | 10.683 | .8 | .5 | 1.0 | .5 | .4 | .8 | .5 | 1.1 | 1.0 | 1.5 |
| 4 | Consumer goods, excluding automobiles..... | 12.250 | .8 | -.8 | .6 | -.4 | .2 | -.6 | .6 | 1.3 | .7 | 2.1 |
| ¹ Relative importance figures are based on 2004 trade values. | | | NOTE: Dash indicates data not available. | | | | | | | | | |

percent in 2005 and 16.6 percent in 2004. Overall energy costs advanced at a 22.8-percent annual rate in the first half of 2006, then declined at a 13.4-percent annual rate in the second half of the year. Excluding food and energy, the CPI-U increased 2.6 percent in 2006, compared with 2.2 percent in both 2005 and 2004. (See chart 2.)

The Producer Price Index (PPI) also increased in 2006, in a fifth consecutive annual increase. Unlike the Export

Price Index, lower energy prices led to a smaller increase in the PPI in 2006 than in past years. Finished goods prices increased 1.1 percent in 2006, much slower than the 5.4-percent increase in 2005. The slower rate of increase can be attributed to the index for finished energy goods, which fell 2.0 percent in 2006 after climbing 23.9 percent in 2005. Finished goods excluding foods and energy rose 2.0 percent in 2006, compared with 1.4 percent in 2005.

Chart 1. Changes in the PPI, CPI, and import energy price indexes, 2002–06

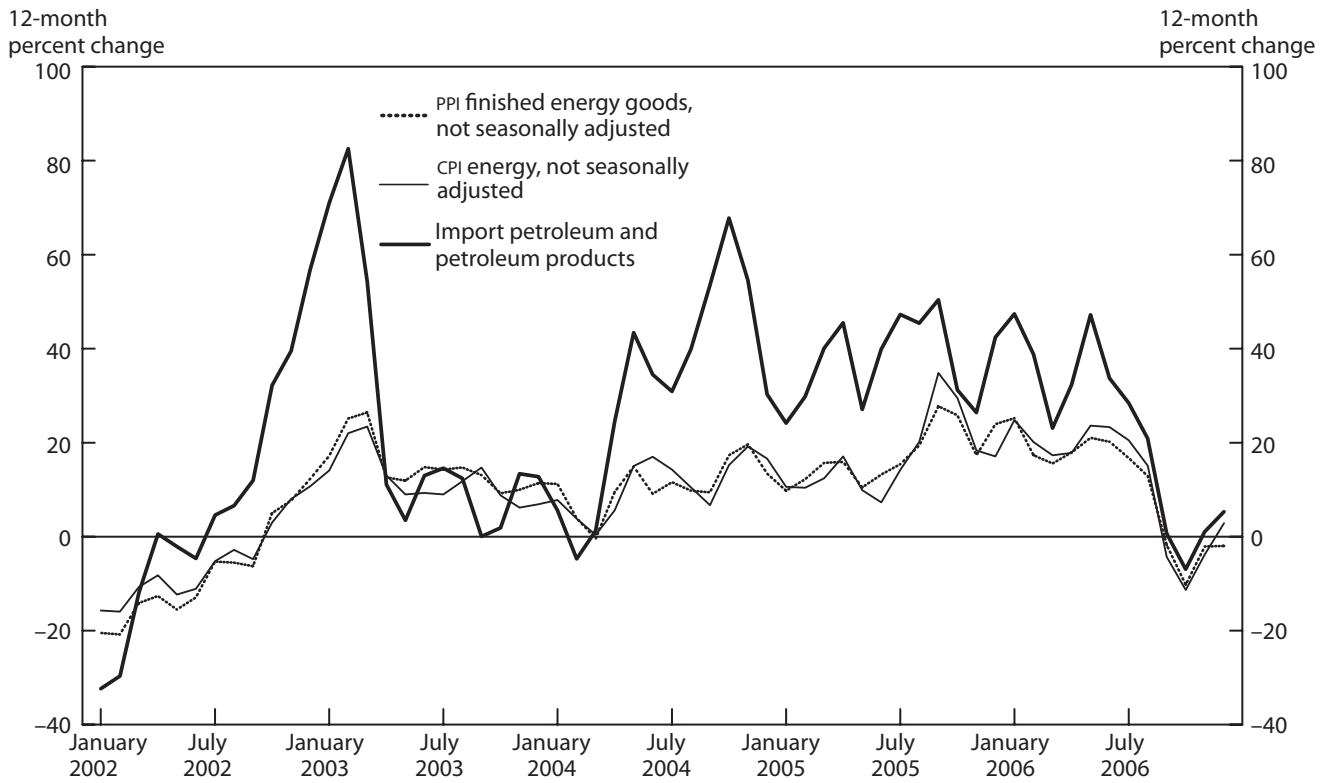
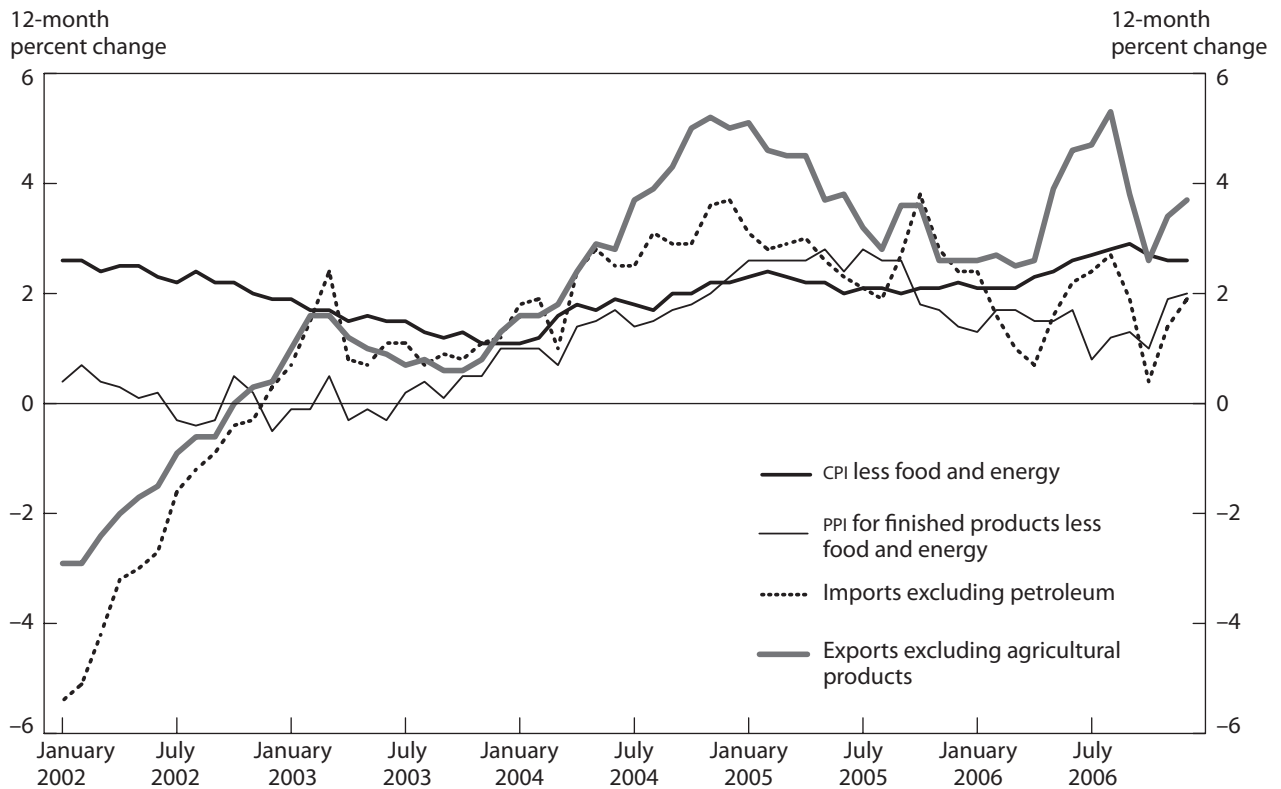


Chart 2. Changes in the CPI, PPI, and import and export price indexes, 2002–06



Import price trends

Energy. Import petroleum prices rose 5.3 percent in 2006, a significantly smaller increase than the 42.4-percent advance in 2005 and the 30.3-percent rise in 2004. The index movement during the first 8 months of the year mirrored the increases seen during the last 2 years, but a steep drop in petroleum prices in the fall led to the smaller increase for the year. (See chart 3.) Despite the smaller increase in petroleum, prices for energy products still had a significant impact on import prices in 2006.

During the first two-thirds of the year, petroleum prices continued to climb steeply as they had in the previous 2 years. Several factors led to fears that supply would not be sufficient to meet continued strong demand, including geopolitical instability and a forecast for an active hurricane season. Limited spare capacity also led to concerns that supply disruptions could unbalance the market and push prices higher.¹ In light of these uncertainties, oil market participants, fearing they would be unable to get needed supplies, began to store additional inventories as a buffer against possible future supply problems.²

Supply concerns stemmed from instability in the Middle East and Africa,³ as well as the shut down of the British Petroleum (BP) oil field in Prudhoe Bay.⁴ The dispute between Iran and much of the world community over Iran's resumption of its nuclear program raised fears that Iran would face punitive actions from the United Nations Security Council or would halt exports as a political tactic.⁵ A supply disruption from Iran could have had a significant impact on prices because global spare production capacity was less than the amount of oil Iran, the world's fourth largest oil exporter, was exporting per day.⁶ Political instability in Nigeria, the world's eighth largest oil exporter, also led to higher prices, as attacks on pipelines and kidnappings of foreign oil workers reduced Nigerian exports by approximately 20 percent in February 2006.⁷ Nigerian oil production remained significantly below normal levels throughout the spring and summer.⁸ The war between Israel and Hezbollah, while not directly affecting oil supplies, added to market anxiety as market participants feared the hostilities would spread, affecting oil exports from the region.⁹ BP's August 6th announcement that it would be shutting down its Prudhoe Bay oil field due to pipe erosion and a small leak, contributed to the rise in petroleum prices as well.

The forecast for an active hurricane season also contributed to concerns about future supply problems and higher prices for the first two-thirds of 2006. The National Oceanic and Atmospheric Administration (NOAA)

predicted that the 2006 hurricane season would be even more active than in 2005, when hurricanes Katrina and Rita significantly impacted oil production along the U.S. Gulf Coast,¹⁰ an important source for U.S. production of crude oil and natural gas.¹¹ The past few hurricane seasons hampered activity in the Southern United States and NOAA's 2006 forecast gave energy markets another reason to be cautious.

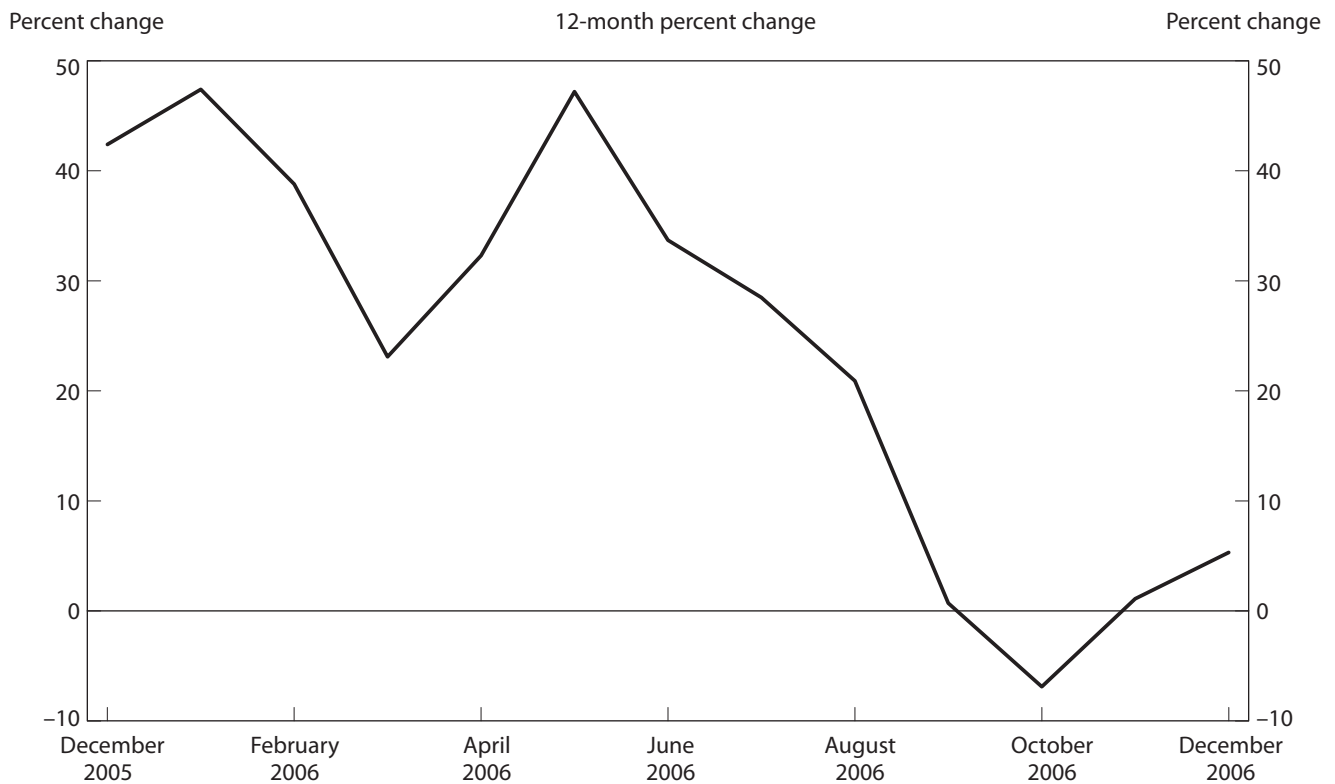
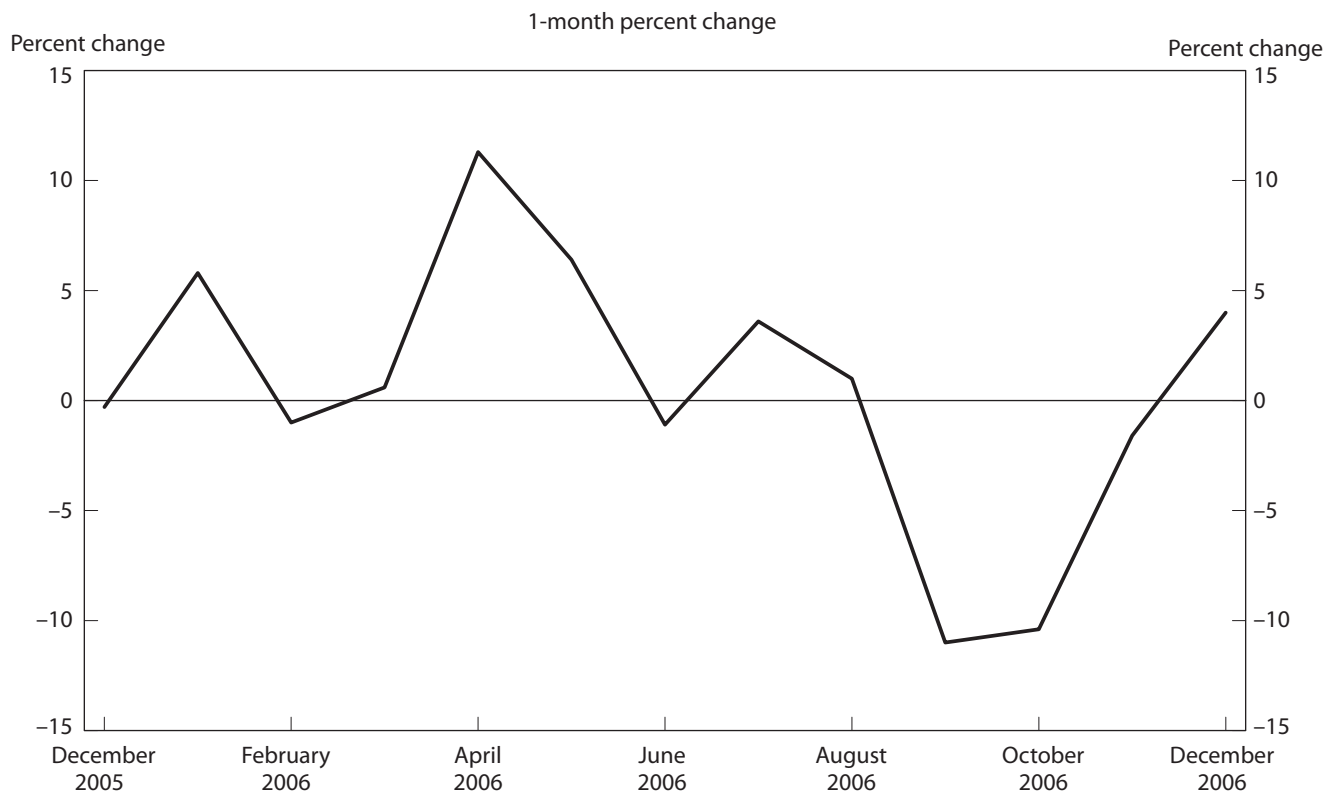
While it appeared that energy prices were poised to end the year significantly higher as they had in 2004 and 2005, the last few months of 2006 saw a dramatic shift in the upward trend that had marked the past few years. Petroleum prices fell sharply, 11.0 percent in September and 10.4 percent in October—the largest 2-month decline since April and May 2003, when prices fell 23.8 percent.

Many of the geopolitical problems that had heightened supply fears earlier in the year subsided in the fall.¹² The political situation in Iran abated somewhat as the United Nations Security Council's resolution deadline—giving Iran until August 31st to suspend uranium enrichment or face possible sanctions—passed without sanctions and Iran renewed talks with the Western nations.¹³ The hostilities between Israel and Hezbollah ended in August.¹⁴ As for actual supply problems, BP, which had announced it would be shutting down its Prudhoe Bay oil field in August, was able to restore the oil field to full production ahead of schedule.¹⁵ That announcement, coupled with the fact that U.S. inventories were well above the 5-year average for that time of year, contributed to the easing of supply fears.¹⁶ Also, as the year came to an end, it became apparent that the record-setting hurricane season of 2005 would not be repeated in 2006.¹⁷

While geopolitical issues remained a factor, especially because the situation in Nigeria remained unstable, they exerted less of an influence on oil prices.¹⁸ Previously, expectations of supply problems had led many oil market participants to purchase additional inventories earlier in the year. When the anticipated supply problems didn't occur, market participants then sold off contracts and prices plunged.¹⁹

Natural gas prices fell in 2006, decreasing 28.4 percent, partially reversing the large increases in 2004 and 2005 when prices jumped 42.5 percent and 54.9 percent, respectively. Natural gas prices had risen sharply following Hurricane Katrina in 2005, due to damage to platforms and underwater pipelines, but prices retreated in early 2006. Prices plummeted in February 2006, the largest 1-month drop since April 2003, and dropped further in March when fears of shortages were reduced. Mild weather coupled with high reserve levels held natural gas

Chart 3. Changes in the import petroleum prices index, December 2005 to December 2006



prices down for most of the year.²⁰ The mild hurricane season also helped keep both demand and prices stable later in the year.

Two brief departures from the temperate weather caused natural gas prices to jump a couple of times in 2006. First, a heat wave in August caused demand for air-conditioning to peak, helping to push up natural gas prices. Later, the first cold spell in November also pushed prices for natural gas up 43.2 percent, the largest advance since November 2004.

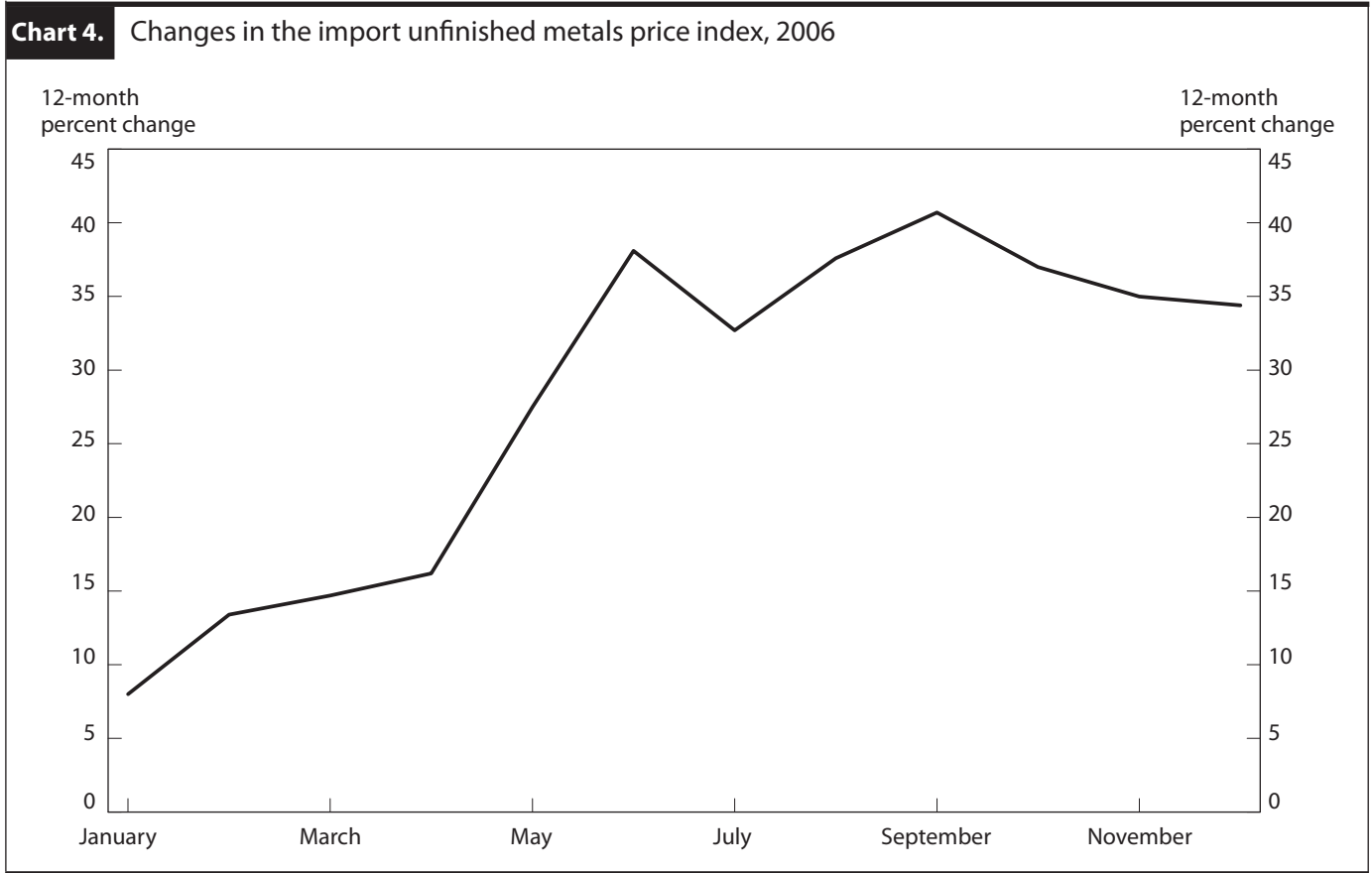
Nonfuel industrial supplies and materials. The price index for import nonfuel industrial supplies and materials rose 11.3 percent in 2006, after a 4.4-percent advance in 2005.

Higher metals prices were the largest factor moving the index up throughout 2006. Unfinished metals prices increased across the board for most of the year, rising 34.3 percent overall. (See chart 4.) Prices for industrial metals such as aluminum, copper, zinc, and nickel remained high, as they have since the latter half of 2005, due to strong demand and low stock levels.²¹ Precious metal prices also remained strong as investors turned to precious metals such as gold and silver as a hedge against inflation.²²

Prices for iron and steel mill products were below the record highs posted in 2004, but were still up 19.3 percent for the year.

However, metals prices did not trend up throughout all of 2006. Fears that interest-rate increases would lead to diminished economic growth caused a market correction in mid-May through mid-June.²³ Most metals prices resumed their upward trend in July though, as investors regained confidence in the market. One exception was gold prices which declined for several months in the fall as fuel prices fell and the demand for hedge products weakened. Gold prices resumed their upward trend in December and increased 31.1 percent for the year.

Copper prices also diverged from the other metals prices towards the end of the year, experiencing a 4-month slide to close 2006. In May, strong industrial and speculative demand as well as supply concerns pushed copper prices to record levels on commodity markets,²⁴ causing buyers to seek cheaper alternatives.²⁵ As a result, demand dampened and prices began to slide. A surplus in the world refined copper market through October 2006 of 73,000 metric tons, compared with a 201,000 metric-ton market deficit for the same period in 2005, played a role in the downward shift in prices as well.²⁶ A slump



in construction/housing starts also contributed to reduced demand for copper.

Chemicals prices remained relatively high in 2006, increasing 4.4 percent. Higher oil prices put pressure on petroleum and natural gas-based products such as plastics. Strong demand for these products also contributed to the upward pressure on prices.

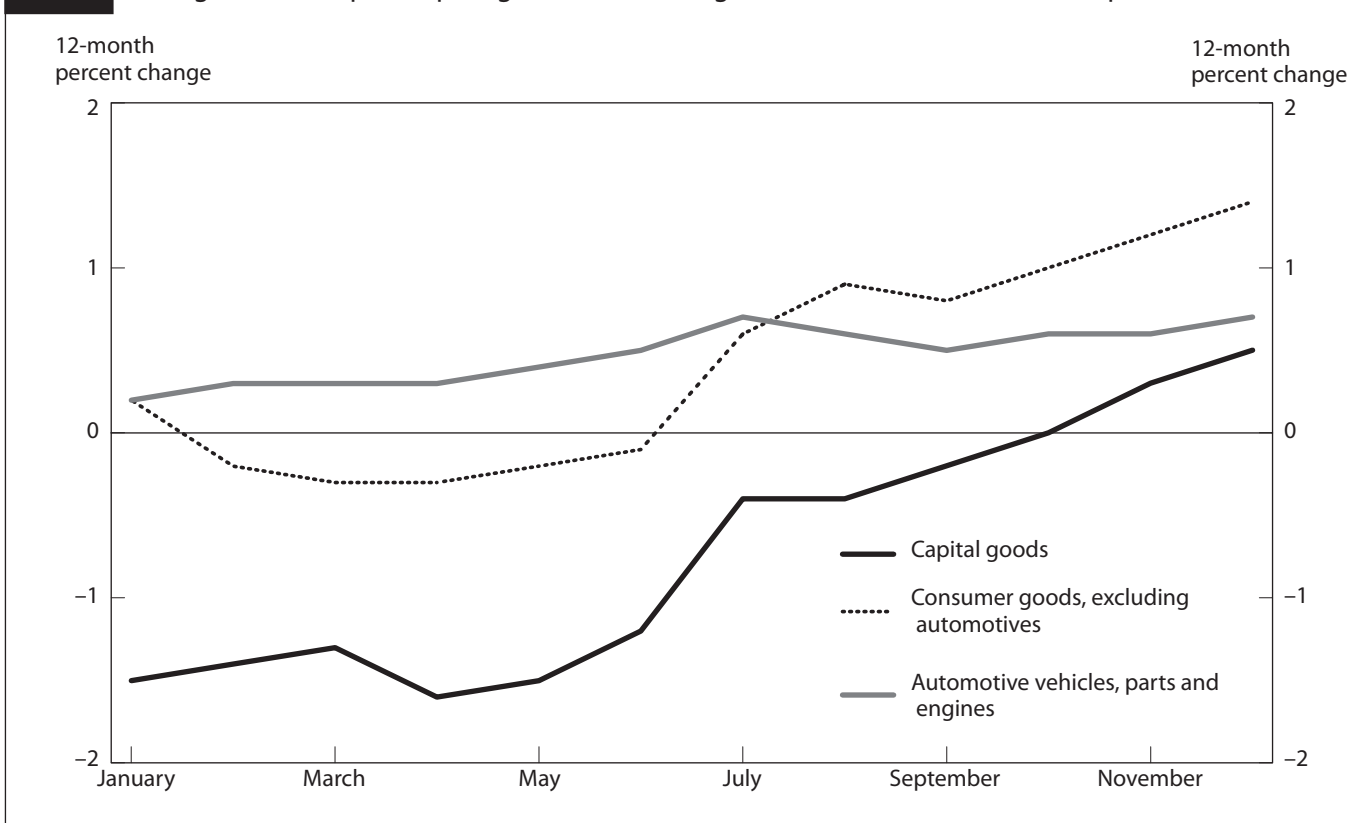
Lower prices for building materials dampened the overall increase for nonfuel industrial supplies and materials. Prices for building materials fell 5.4 percent in 2006. Housing starts, which had been strong in recent years, fell 12.9 percent in 2006 leading to softer demand.²⁷ An excess of supply of softwoods spruce, pine, and fir also helped to push prices lower. In order to avoid penalties from the Softwood Lumber Agreement, Canadian producers exported aggressively to pre-empt the impact of the agreement which was signed on September 12, 2006.

Capital goods. Prices for capital goods reversed directions in 2006, with a 0.5-percent increase, after a 1.3-percent decrease the previous year. (See chart 5.) The change was the first annual increase for the index since 1995 and is primarily attributed to increases in raw material costs. Prices for capital goods excluding computers and

semiconductors increased 2.3 percent, almost double the 1.2-percent increase of 2005, and were the largest increase for the index since 1994. Annual contract renegotiations reflected higher material costs, namely for copper, steel, aluminum, and fuel. However, a decline in copper prices helped moderate increases in the index later in the year as prices moved lower for the first time since June 2005. For example, declining demand for copper used to make wiring and other products for the depressed housing construction market, along with softer demand for appliances and automotive vehicles, impacted the reverse in prices.²⁸ Currency fluctuations impacted the index to a lesser extent. The Euro and U.K. pound contributed to upward price movement, with the U.K. pound reaching a 14-month high against the U.S. dollar in early December.²⁹

Computers, peripherals, and semiconductors prices declined 3.6 percent, following a much larger 6.5-percent decrease in 2005. The index declined throughout the year with the exception of a 0.1-percent increase in November—the first monthly advance for the index since September 2003. Weak demand, market saturation, rapid product innovation, increasing production efficiencies, and intense competition continued to move prices downward in this industry.

Chart 5. Changes in the import capital goods, consumer goods, and automotive vehicles price indexes, 2006



Automotive vehicles, parts and engines. The price index for automotive vehicles, parts and engines increased 0.7 percent in 2006, the fifth consecutive annual increase for this index. (See chart 5.) Strong sales for luxury cars in conjunction with higher raw material and energy costs pushed prices for passenger vehicles and trucks up during most of the year. The strengthening of the Euro against the U.S. dollar also contributed to the increases at the beginning of the year, while new model introductions in the latter part of the year contributed to the upward movement.

The import parts index increased overall because of higher metal and energy costs.

Consumer goods. Prices for import consumer goods, excluding automobiles increased 1.4 percent in 2006, after rising 0.6 percent in 2005. (See chart 5.) This was the fourth consecutive and the largest increase since 2003. Consumer goods prices were impacted more by changes in the exchange rate than from raw materials prices, but higher raw materials prices played a role in pushing up import consumer prices in 2006.

Import consumer prices began the year higher, as typically many companies implement annual contract adjustments at the beginning of the year. Higher metals prices began to impact import consumer goods prices in May when a sharp upturn in costs for precious metals, specifically gold, pushed up prices for jewelry.

Most consumer goods categories increased over the year, most notably coins, gems, and jewelry, which was up 22.1 percent for 2006. Home entertainment equipment was the only area where prices declined, falling 3.6 percent over the year. Similar to 2005, production cost savings pushed prices lower due to economies of scale and competition.

Foods, feeds, and beverages. Prices for imported foods, feeds, and beverages rose 4.3 percent in 2006, after larger increases of 5.4 percent in 2005 and 8.0 percent in 2004. This index has risen each year since 2002.

Vegetable prices had a significant upward impact on the import foods, feeds, and beverages index, but the increase for vegetables was less than in recent years. Vegetable prices increased 7.0 percent in 2006, compared with an 18.0-percent advance in 2005 and a 21.6-percent increase in 2004 when several hurricanes battered Florida and Mexico. Early in the year, vegetable prices fell sharply when supply finally began to return back to pre-hurricane levels and demand for imported produce diminished as domestic production resumed.³⁰ Prices then remained up for most of the rest of the year. Both fruit and vegetable

prices increased as an excess of rain in the major growing regions in Mexico and Central America put pressure on supply.

Coffee prices ended the year up 13.8 percent despite falling for most of the first half of 2006. After surging in late 2005, coffee prices began to stabilize in February. Towards the end of the year, prices rose because of production problems in Vietnam and an anticipated reduction in the 2007–08 Brazilian crop.³¹

Locality of Origin price indexes. As previously discussed, petroleum prices moved upward during the beginning of the year then dropped the latter half of the year, with a number of Locality of Origin price indexes following the same pattern. The indexes were driven upward by higher petroleum prices from countries that export the product to the United States, namely the European Union (EU), Mexico, and Canada. However, increases from those countries were smaller compared with 2004 and 2005, as oil prices increased at a slower pace in 2006.

Manufactured goods from the EU rose 5.5 percent following a more moderate increase of 1.8 percent in 2005, while nonmanufactured goods rose a modest 4.1 percent, compared with the 17.2-percent increase in 2005 and the 37.3-percent increase in 2004. Increases in the EU price index were also partially attributed to the strengthening of the Euro and U.K. pound against the U.S. dollar. Manufactured goods from Latin America rose 3.0 percent, compared with 7.3 percent in 2005, while nonmanufactured goods from the same region rose a modest 6.1-percent in comparison with 41.9 percent in 2005. Manufactured goods from Canada rose 2.7 percent, compared with 4.4 percent in 2005, rising for the fifth consecutive year, while nonmanufactured goods declined 8.3 percent, reversing the trend of increases over the past 4 years, when the index rose 37.8 percent and 32.0 percent in 2005 and 2004, respectively. The Canadian price index for nonmanufactured goods experienced its first decline in 5 years due to the offsetting impact of lower natural gas and lumber prices on higher petroleum prices.

Prices from Japan and China continued their downward trend, with both indexes falling 1.2 percent. The annual change in prices for commodities from Japan has consistently declined since November 2005. The annual change in prices for commodities from China has steadily declined since December 2004, the first month of annual index calculations available for China, with annual declines ranging from 0.5 percent to 1.4 percent. Figures from Chinese customs show that in the first 11 months of 2005, China exported to the United States 1.29 billion

pieces of knit goods worth 3.93 billion U.S. dollars, with average unit price reaching 3.05 U.S. dollars, down 43.69 percent from the previous year.³²

Export price trends

Agricultural goods. The export agricultural goods price index rose 13.5 percent in 2006, after a more modest 4.9-percent rise in 2005.

Corn prices led the overall advance, rising 60.4 percent in 2006. Corn prices remained flat for most of the year, but strengthened in the last months of 2006 due to strong demand as well as a downward revision in the 2006 harvest.³³ Although output remained historically strong, growing demand and fears of supply shortages pushed corn prices higher. The surge in demand for corn came from the world's livestock producers, most notably China, as well as from U.S. ethanol producers as ethanol became increasingly important as a fuel additive.

Strong global demand for crude oil combined with the Energy Policy Act of 2005 and Federal tax credits stimulated an expansion of ethanol production in the United States. With mandated increases in the use of renewable fuels and the lack of liability protection for the popular fuel additive methyl tertiary butyl ether (MTBE), the interest in ethanol as a replacement has increased.³⁴

As in the past several years, soybean prices were also a leading influence on the agricultural goods index. After remaining stable in the latter months of 2005, soybean prices fluctuated in the early part of the year. Prices slid in April based on reaction to projections from the U.S. Department of Agriculture that U.S. farmers planned to increase soybean planting,³⁵ but rose in May as rainy weather forced farmers to delay planting.³⁶ Soybean prices rose sharply in November and ended the year up 14.1 percent. The atypical fall price increase resulted from the surge in corn prices which had a residual impact on soybeans as farmers switched acreage from soybeans to corn to take advantage of higher prices in the corn industry.

Wheat rose 25.7 percent in 2006, compared with 4.9 percent in 2005. Wheat prices increased due to lower projected crop yields in 2006 as a result of drought in some parts of the country.

Nonagricultural industrial supplies and materials. Export nonagricultural industrial supplies and materials prices were up 9.2 percent in 2006, after increasing 8.5 percent in 2005. The rise was the fifth consecutive increase for this index and the second largest increase over that 5-year period after a 16.6-percent advance in 2004.

Much of the increase for export nonagricultural industrial supplies and materials prices can be attributed to higher fuel prices. Prices for export petroleum and petroleum products increased 11.6 percent in 2006. Export petroleum product prices reflected import petroleum prices—that is, rising in the first two-thirds of the year before declining—for the same reasons.

Higher gasoline prices, which make up a larger percent of export trade than import trade, also contributed to the increase. Strong demand and higher crude oil prices account for some of the advance, but reduced inventories also contributed to higher gasoline prices. Lower inventories were due partly to refinery maintenance that had been deferred from last fall.³⁷ Reduced inventories also resulted from the switch from MTBE to other gasoline additives.³⁸ Gasoline prices declined in the fall along with crude petroleum prices; the end of the summer driving season also contributed to the drop in prices.

Export nonferrous metals prices also continued to increase, rising 41.5 percent in 2006, twice the increase as the year before. As with import metals prices, robust demand buoyed prices for industrial metals while investor demand pushed up prices for precious metals as a hedge against inflation.

Chemical prices increased slightly in 2006, rising 1.5 percent. Chemical prices rose because of higher petroleum prices.

Capital goods. Prices for exported capital goods increased 1.1 percent in 2006, following a 0.5-percent decrease in 2005. This was the largest increase for the index since a 1.8-percent increase in 1995. The price index for capital goods excluding computers, peripherals, and semiconductors increased 3.0 percent, compared with 2.1-percent increases in both 2004 and 2005. The 2006 increase was the largest for this index since 1991. As with imports, the increase was dominated by rising material costs, namely metals and energy; however, several price decreases took place towards the end of the year, including a reversal in copper prices, which helped to temper these increases. The strengthening of the Euro against the U.S. dollar also contributed to the increase in the index. Because the indexes are priced in U.S. dollar terms, prices for a small but growing number of items reported in foreign currencies are converted to U.S. dollars, resulting in higher dollar prices for the items.

Computers, peripherals, and semiconductors prices declined 4.8 percent, following a much larger 7.1-percent decrease in 2005. As with imports, weak demand, market saturation, rapid product innovation, increasing produc-

tion efficiencies, and intense competition continued to drive prices down in the industry overall. The computer price index continued to decline and the semiconductor price index moved down steadily throughout the year. Price declines resulted from newer technology, manufacturing efficiencies, and weak demand. For example, in the semiconductor industry, the newest chips on the market have circuits with lines less than 0.13 microns across—less than one-thousandth the width of a human hair. The finer the lines, the more transistors can be packed onto the same chip and the more transistors on a chip, the faster the data can be processed. Fierce competition and new technologies have the ability to lower the cost of production per chip within a matter of a month, causing the price of a new chip to drop by half.³⁹

Automotive vehicles, parts and engines. The price index for automotive vehicles, parts and engines continued to trend upward, increasing 1.5 percent in 2006, compared with a more moderate 1.0-percent rise the year before. The only decline of the year occurred in November as a result of a late-year downturn in steel prices, which impacted auto parts. The index for automobiles and trucks increased 0.6 percent, with increased manufacturing and raw material costs as the primary contributor impacting this index. Steel and fuel costs, along with other metals costs were responsible for the material increases.

The index for auto parts ended the year 2.3 percent higher than in 2005, again with increased raw materials costs for steel, aluminum, plastics, fuel, and by July, rubber impacted prices as well.

Consumer goods. Export consumer goods prices increased 2.1 percent in 2006 after rising 0.7 percent last year. The 2006 advance was the fourth consecutive and largest increase since the index began trending upward in 2003.

Export consumer goods prices increased for many of the same reasons as the import measures—exchange rate pressures and higher raw materials costs. The index began the year up and remained up for most of the year. The largest increase occurred in January when the index rose 0.4 percent in conjunction with annual contract adjustments. Sharply higher gold prices also led to a jump in the prices of jewelry.

Similar to capital goods prices, higher prices for export consumer goods were partially attributable to the falling dollar.

Services. Air passenger fares were driven by exchange rates, higher fuel prices, and strong demand in 2006, after being moved mainly by exchange rates in 2005. Import air passenger fares rose 7.8 percent in 2006, almost twice the 2005 increase of 4.1 percent. High fuel prices led the advance, although higher demand also contributed to the increase as well. Export air passenger fares rose 7.0 percent in 2006, resuming an upward trend, after declining 4.3 percent in 2005. Exchange rates were the primary reason for the increases, as the weaker dollar led to higher fares early in the year.

Air freight rates were affected by rising fuel surcharges as well as the depreciation of the U.S. dollar versus several European currencies. Import air freight rates rose 1.8 percent in 2006, following a similar 1.7-percent increase in 2005. Export air freight rates rose 4.2 percent in 2006, following a 5.6-percent increase in 2005.

Inbound ocean liner freight prices declined 10.1 percent in 2006, the first decrease since an 8.1-percent drop in 2001 (prices were up 3.3 percent in 2005). Early in the year, many companies renegotiated their contracts and rates fell due to excess capacity and competition. These contract renegotiations impacted the index in late spring and early summer, causing a 3-month drop of 10.4 percent from May to July. Rates were expected to drop dramatically in 2006 due to forecasts of overcapacity,⁴⁰ but strong demand moderated the fall in rates.

The inbound crude oil tanker price index fell 20.1 percent in 2006, after falling 17.2 percent in 2005. Prices started 2006 on an upward trend due to the after effects of Hurricane Katrina. Oil production along the Gulf of Mexico had been reduced for a period, thereby increasing the demand for imported oil. However, prices dropped significantly beginning in March as capacity began to increase. Many refineries in the Northern Hemisphere underwent routine maintenance in the spring which resulted in excess capacity. The maintenance period came to an end in June just as summer demand began to pick up, pushing prices up. Prices remained steady throughout the remainder of the year. □

Notes

¹ *ELA Petroleum Marketing Monthly* (U.S. Department of Energy, Energy Information Agency), June 2006 (with data for March 2006).

² *ELA This Week in Petroleum* (U.S. Department of Energy, Energy Information Agency, Feb. 23, 2006).

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