



Focus on Prices and Spending



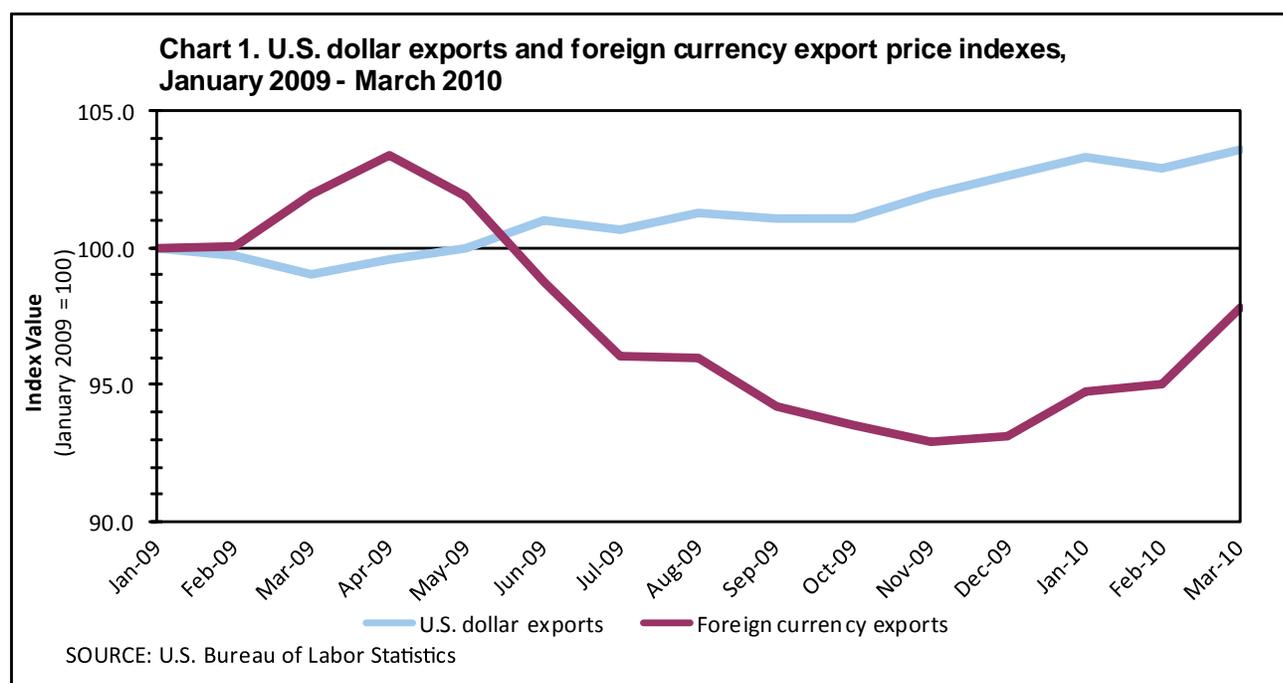
Import and Export Prices: First Quarter 2010

U.S. Bureau of Labor Statistics May 2010 Volume 1, Number 1

Current Price Topics The Price Competitiveness of U.S. Exports

Price is a key factor affecting the competitiveness of U.S. exports. When the prices of U.S. exports fall relative to the prices of similar products produced in other countries, the demand for U.S. exports grows. The Bureau of Labor Statistics (BLS) releases price indexes each month that show the average price movement for exports. These indexes measure items in U.S. dollar terms which, in effect, show the average price change that U.S. exporters receive for their products. Another factor that should be analyzed is the price competi-

tiveness of U.S. exports. From the point of view of a buyer in a foreign country, how the price of U.S. exports changes in foreign currency terms is more relevant than how the price changes in U.S. dollar terms. The price trend for U.S. exports in any given foreign currency can differ from the price trend in U.S. dollar terms, depending on how the value of the U.S. dollar varies relative to that currency. For example, a buyer in Canada may purchase a U.S. item that increases 5 percent in U.S. dollar terms. However, if the Canadian dollar rises by 10 percent compared with the U.S. dollar over the same period, in Canadian dollar terms, the item is actually 5 percent cheaper.

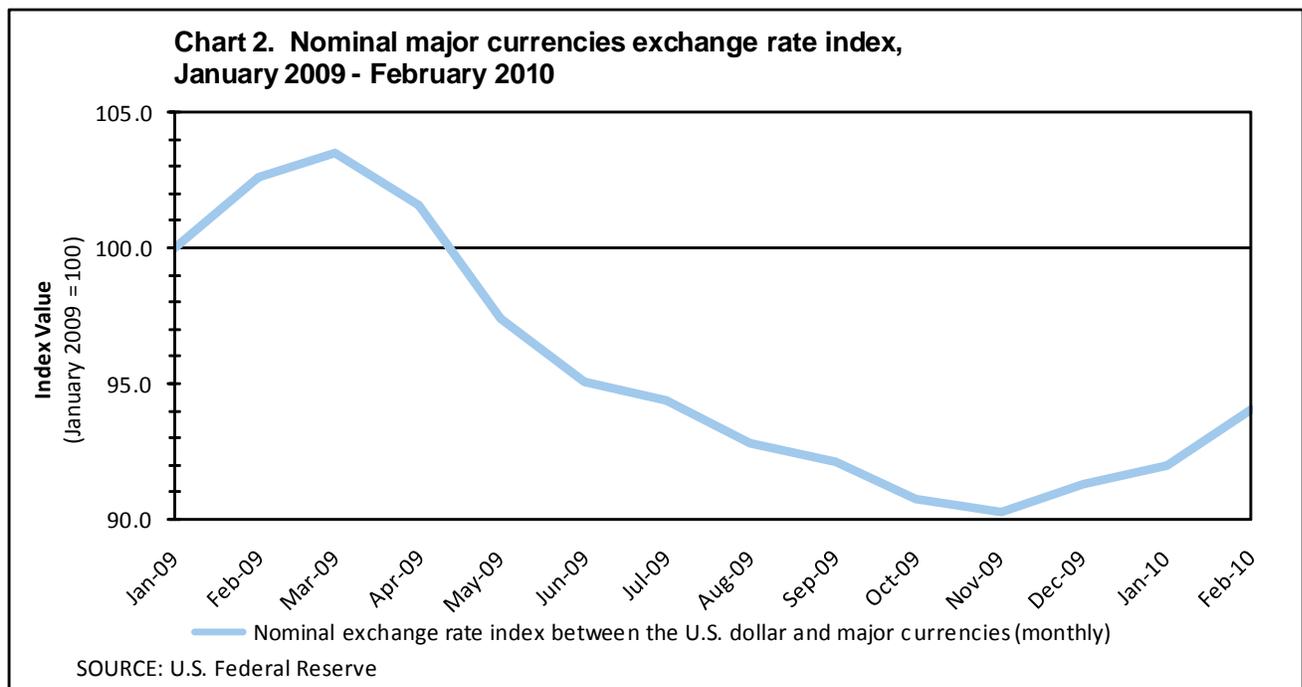


Export prices in U.S. dollar terms have risen 3.6 percent since the beginning of 2009. When viewed from the perspective of a broad range of foreign buyers, U.S. exports were on average 2.2 percent cheaper in March 2010 than they were in January 2009. (See chart 1.) So despite the fact that exports were getting more expensive in U.S. dollar terms, they were more price competitive from the perspective of many purchasers of those exports.

An examination of how the U.S. dollar has moved since the beginning of 2009 could provide some insight on why the U.S. dollar price of exports has so differed from the foreign currency index over the same period. Continuing an upward trend dating from the second half of 2008, the U.S. dollar rose in value against the trade-weighted basket of major currencies through March 2009. The global financial crises that began in mid-2008

led investors to favor the relative safety of U.S. Treasury bills, thus pushing the value of the U.S. dollar up. From March through the remainder of 2009, the U.S. dollar reversed trend and lost approximately 12 percent of its value against most major currencies. Although the U.S. dollar has remained stable against most major currencies through the early months of 2010, it has risen relative to the euro, thus pushing the trade-weighted value of the U.S. dollar up overall. (See chart 2.)

The impact of the movement of the U.S. dollar can be seen in the foreign currency index of U.S. export prices. Over the first 4 months of 2009 the U.S. dollar price of exports was virtually unchanged; however, the rising value of the U.S. dollar over the same period resulted in export prices in foreign currency terms rising 3.4 percent.



Since April 2009, foreign currency export prices have declined 5.4 percent even though export prices rose 4.0 percent in U.S. dollar terms.

So, did more competitive export prices have an impact on the demand for U.S. export goods? Over the first 4 months of 2009, the U.S. dollar value of U.S. exports declined. (See chart 3.) From April through the end of 2009, however, when the price of exports was falling in foreign currency terms, the value of U.S. export goods increased 24.0 percent. The change in the value of the U.S. dollar was not the only variable that influenced the demand for U.S. exports, of course. Improved economic conditions following the global downturn at the end of 2008 also were a factor, but worth noting is that the value of U.S. exports leveled off in January and February 2010 as the U.S. dollar

has increased against a trade-weighted average of major currencies.

At present, U.S. export price indexes are only published in U.S. dollar terms. In order to look at U.S. export prices from a foreign currency perspective, as was done in this analysis, some measure of exchange rates is necessary to convert the U.S. dollar price index, produced by BLS, into foreign currency terms. This analysis made use of data produced by the Federal Reserve Board. The Federal Reserve produces a trade weighted exchange rate index between the U.S. dollar and a set of major currencies (defined as currencies that circulate outside the country of issue.) The Federal Reserve's index is weighted by both U.S. export shares and a combination of U.S. and foreign import shares; in the absence of a pure export-weighted exchange rate index, the Federal



Reserve's major currencies index allows for a useful estimate of a U.S. export price index in foreign currency terms. The U.S. export price index in foreign currency terms is derived by taking the U.S. dollar price index multiplied by the exchange rate index divided by 100.¹ When the value of the U.S. dollar falls, U.S. exports on average get cheaper. Likewise, a rising U.S. dollar will mean that U.S. exports become relatively more expensive.

Deriving aggregate U.S. export prices in terms of a basket of foreign currencies is a relatively simple and useful exercise that is possible using the price data produced by BLS and exchange rate information from the Federal Reserve. But such analysis of U.S. export price competitiveness could be greatly expanded by looking at detailed product areas. For example, an in-depth study of the price of U.S. automobiles in foreign currency terms might add insight to how export share

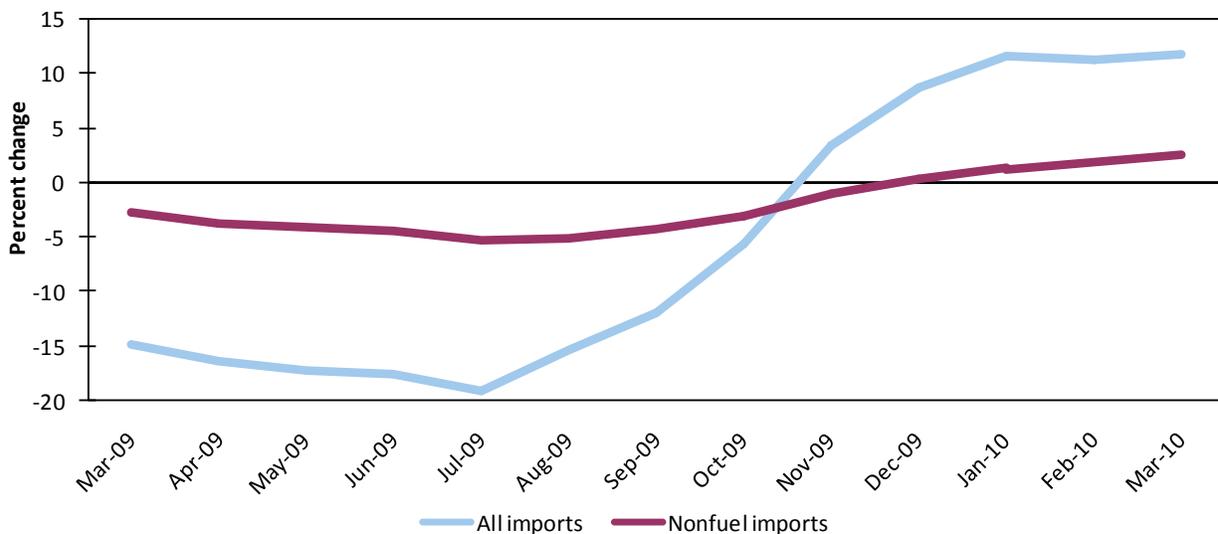
expansion could help the troubled industry recover. What would be needed is an average exchange rate index weighted by the trade partners for U.S. automobile exports. That index could then be multiplied by the respective U.S. dollar price index. Presently, such indexes are not produced anywhere, but in the future, the addition of average exchange rate indexes by product area could lead to a better measurement of the price competitiveness of U.S. exports in an increasingly globalized economy.

Current Price Trends
Quarterly Price Highlights

Import Prices

Import prices rose 1.8 percent in the first quarter of 2010, continuing an upward trend dating back to the first quarter of 2009. Prices for overall imports in March 2010 rose 11.4

Chart 4. All imports and nonfuel imports 12-month percent change, March 2009 - March 2010



SOURCE: U.S. Bureau of Labor Statistics

percent compared to the same period a year ago and have been rising on a 12-month basis since November 2009. (See chart 4.)

Approximately 74 percent of the first quarter advance in import prices was attributable to a 6.2-percent increase in fuel prices, which rose two of the 3 months in the quarter. Nonfuel prices also rose over the 3 months ended in March, but at a comparatively modest 0.6 percent. The price index for nonfuel imports advanced 2.7 percent between March 2009 and March 2010 after declining on a 12-month basis for most of 2009.

Fuel Import Prices

Fuel prices rose 6.2 percent between December 2009 and March 2010. The advance was driven by a 6.5-percent jump in petroleum prices, which accounted for more than 96 percent of the overall increase. The world demand for oil rose on a yearly basis in the fourth quarter of 2009, reversing a 5-quarter downward trend; that growth continued into the early months of 2010. The increase was largely driven by a sharp jump in petroleum demand from China, which in January recorded a 28.0-percent jump, compared with January 2009. In addition, there are expectations that China will be building up its strategic reserves with petroleum prices at the current level.² The International Energy Agency forecasted in their March 12th report that world petroleum demand will grow 1.8 percent in 2010 after falling 1.4 percent in 2009, with fully a third of the demand growth coming from China. While overall world petroleum demand has turned up in recent months, demand from the

United States and Europe remains sluggish. In addition, the supply of oil rose in the first quarter of 2010. Although OPEC reaffirmed the production quotas set in December 2008 when they met on March 17th, compliance with the quotas has fallen to just 50 percent compared with 82 percent a year ago.³ OPEC production hit a 14-month high in February before falling off slightly at the end of the first quarter.⁴ Beyond the fundamentals, another factor for petroleum prices rising the first 3 months of 2010 was strong investment demand for oil. Investor demand for petroleum futures rose in anticipation of economic recovery in the U.S. and Europe leading to renewed fuel demand.⁵ In addition, petroleum, like other commodities, is perceived as a store of value to protect investors against inflation and a long-term drop in the value of the U.S. dollar.

Higher natural gas prices also contributed to the overall increase in fuel prices, rising 4.7 percent over the first quarter. The index recorded a 19.6 percent spike the first 2 months of 2010 after cold and snowy weather conditions led to an increase in the demand for heating fuels. The increase in natural gas prices during the first 2 months of the year was tempered by a 12.4-percent drop in March that reflected that natural gas reserves remained 10.8 percent higher than the 5-year average.⁶

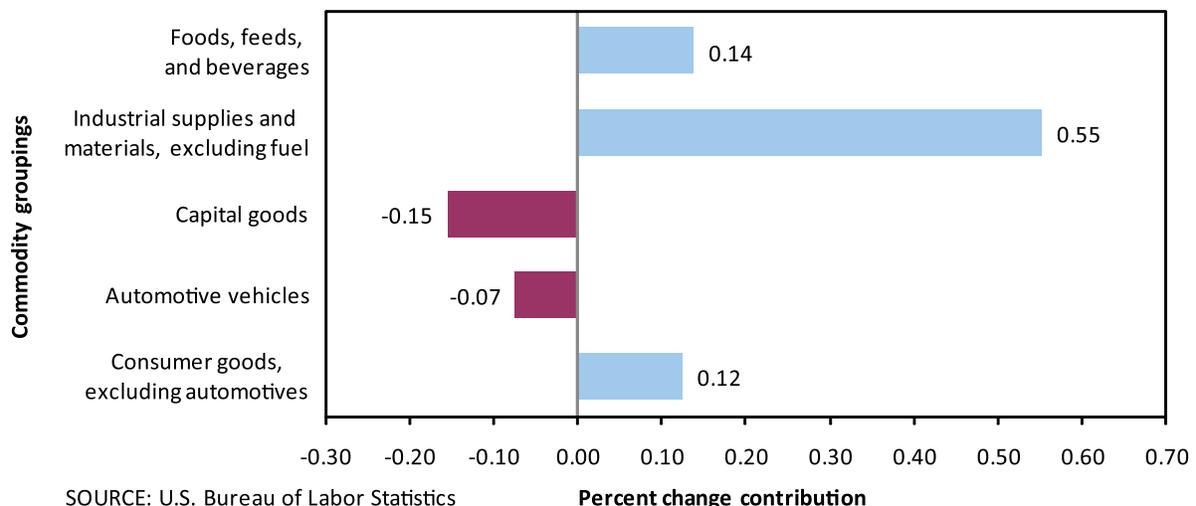
Nonfuel Import Prices

Excluding fuel, import prices advanced 0.6 percent over the first quarter of 2010, continuing an upward trend for the index dating back to April 2009. The largest contributor to

the overall rise in nonfuel import prices was nonfuel industrial supplies and materials prices. (See Chart 5.) As was the case in 2009, prices for unfinished metals led the way in the first quarter of 2010, rising 4.7 percent. The types of metals driving the increases differed, however. The 19.3-percent increase in unfinished metal prices in 2009 was led by sharp advances in gold, copper, and other precious metal prices in a reaction to the drop in the value of the U.S. dollar in 2009. For the first quarter of 2010, the increase was mostly led by a 7.5-percent increase in aluminum prices. Demand from China, the world's largest consumer of aluminum, is expected to increase at least 20 percent in 2010 according to the Aluminum Corporation of China Ltd.⁷ Aluminum prices did turn down the final month of the quarter, falling 3.1 percent in March.

A 3.3-percent increase in chemicals prices and a 6.0 percent advance in building materials prices also helped push up the price index for nonfuel industrial supplies and materials in the first quarter of 2010. An 11.4-percent jump in fertilizer prices, which fell 20.5 percent in 2009, drove the rise in chemical prices and was due in part to higher demand as buyers sought to replenish stocks in advance of the spring planting season.⁸ Higher natural gas prices also helped push up fertilizer prices because natural gas is a key input for producing ammonia, which in turn is used to produce nitrogen-based fertilizers. Building materials prices rose in January and February due to poor weather impeding logging, which led to a reduced lumber supply. In March, U.S. wholesalers sought to replenish their stocks in anticipation of increased demand from builders with the improved conditions.⁹ The earthquake in Chile on February

Chart 5. Major contributors to the 0.6-percent increase in the first quarter 2010 in import prices excluding fuel



SOURCE: U.S. Bureau of Labor Statistics
 NOTE: Due to rounding, figures do not add to total.

27th also affected world lumber prices as much of their forest products industry suffered damage from the earthquake.¹⁰

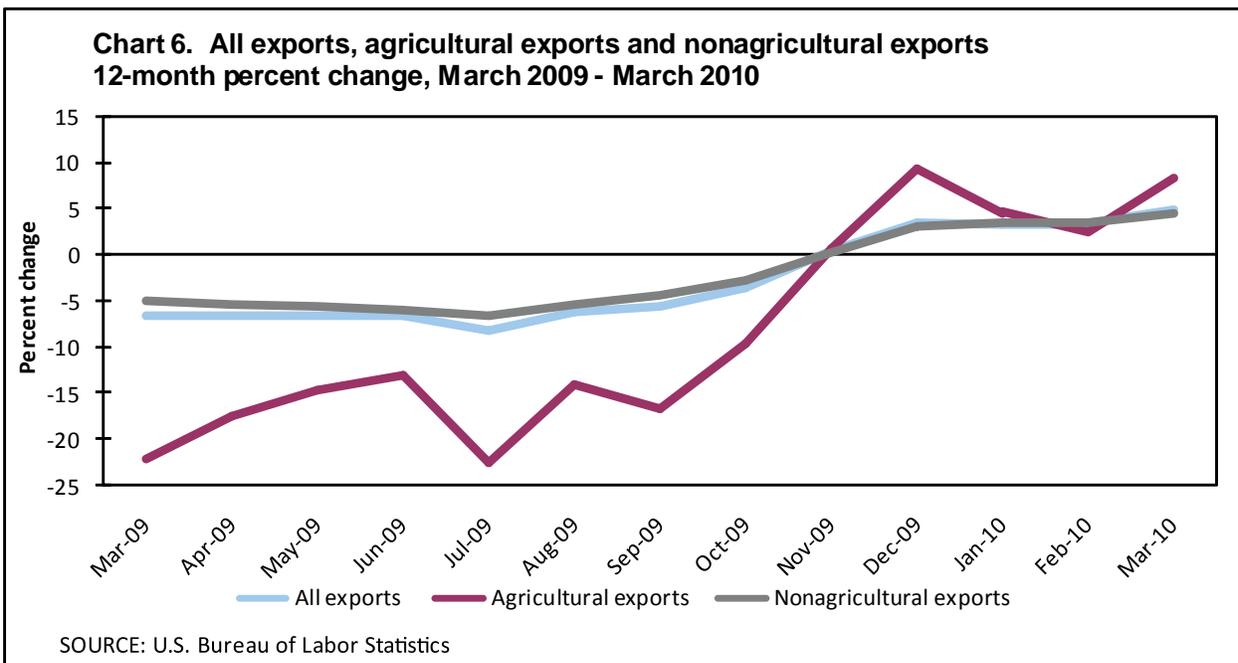
A 2.3-percent increase in foods, feeds, and beverages prices was a contributing factor to the overall price advance in nonfuel prices from December 2009 to March 2010. Higher prices for import vegetables, meat, and fruit, up 14.2 percent, 9.0 percent, and 6.7 percent, respectively, in the first quarter of 2010 all factored into the increase.

Finished goods prices were mixed for the quarter ending in March. Capital goods prices and prices for automotive vehicles fell 0.5 percent and 0.6 percent, respectively over the 3 months while consumer goods prices rose 0.4 percent. The rise of the value of the U.S. dollar, which increased 4.1 percent against a trade-weighted basket of major currencies between November 2009 and February

2010, put downward pressure on all finished goods prices. In addition, import prices for computers, peripherals, and semiconductors fell 1.4 percent, led primarily by a 3.2-percent drop in semiconductor prices. The one notable exception to the declining price trend among finished goods was the price index for medicinal, dental, and pharmaceutical prices, which rose 2.7 percent in the first quarter and led the increase in consumer goods prices.

Export Prices

Export prices increased 0.9 percent the first quarter of 2010, the fourth consecutive quarter the index recorded an advance. On a 12-month basis, export prices rose 4.6 percent, the largest year-over-year increase since export prices rose 7.0 percent from September 2007 to September 2008. (See chart 6.) The increase in export prices the first quarter of 2010



was entirely led by a 1.0 percent advance in nonagricultural export prices. In contrast, agricultural prices edged down 0.4 percent for the quarter ended in March 2010 following a 5.0-percent increase in the final quarter of 2009. Agricultural prices continued to rise on a 12-month basis, increasing 8.2 percent for the March 2009-10 period.

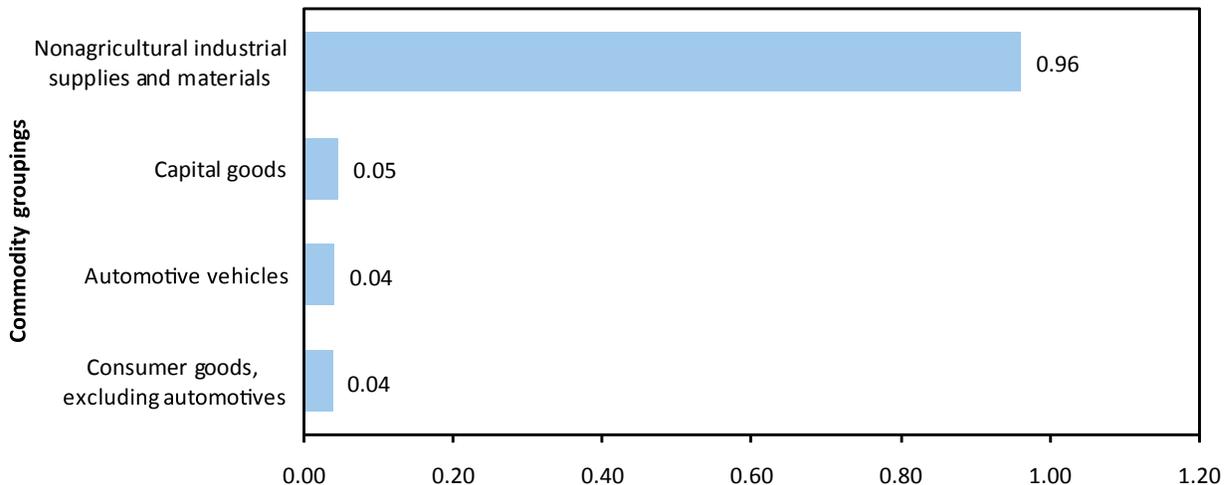
Agricultural Export Prices

Agricultural export prices declined 0.4 percent overall for the quarter ended in March. The decrease was led by lower grain prices, which fell sharply in February. Soybean prices decreased 8.4 percent for the quarter, a drop that was driven by an 11.6-percent decline in February. Export demand for soybeans remains strong, but an increase in the world supply of soybeans, largely the result of record production out of Brazil, is pushing prices down.¹¹ Wheat and

corn prices also fell in the first quarter of 2010. Wheat prices fell 8.5 percent overall as global wheat supplies have risen.¹² Corn prices decreased 3.0 percent between December 2009 and March 2010 as larger foreign supplies of corn have increased the competition for, and subsequent reduction of, U.S. exports. Increased production from Argentina and South Africa were factors in the increased world corn output.¹³

In contrast, meat and nut prices rose in the first quarter of 2010, largely offsetting the falling grain prices. The export price index for meat, poultry, and other edible animal products rose 7.4 percent for the December 2009–March 2010 period. Leading the increase was pork prices, which have risen as the supply of pork in the U.S. has decreased. There was a 3-percent drop in U.S. hog inventories the first 2 months

Chart 7. Major contributors to the 1.0-percent increase in the first quarter 2010 in export prices excluding agriculture



SOURCE: U.S. Bureau of Labor Statistics
 NOTE: Due to rounding, figures do not add to total.

of 2010, and a 4-percent drop in hog births over the past year could lead to further supply reduction in the future.¹⁴ Export nut prices also rose in the first quarter of 2010, recording an 18.5 percent increase driven by a 15.0-percent jump in January. Growing Chinese demand for almonds, walnuts, and pecans drove the increase.¹⁵

Nonagricultural Export Prices

Nonagricultural export prices increased 1.0 percent for the quarter ended in March. The rise was led by a 3.1-percent advance in nonagricultural industrial supplies and materials prices, although finished goods prices were also up for the quarter. (See chart 7.) Higher chemical and fuel prices were the main contributors to the first quarter advance. Chemical prices advanced 4.0 percent because of a sharp jump in fertilizer prices and an increase in natural gas prices. Fuel prices advanced 4.1 percent over the past 3 months, with both rising fuel oil prices and prices for other petroleum products—which includes gasoline—factoring into the increase. Cold temperatures in much of the U.S. played a part in the advance in fuel oil prices.

Each of the major finished goods areas rose in the first quarter of 2010, but by modest amounts compared to the increase in nonagricultural industrial supplies and materials prices. Capital goods prices ticked up 0.1 percent between December 2009 and March 2010 as a 1.9-percent increase in transportation equipment prices more

than offset declining prices for computers, semiconductors, and peripherals. The price index for computers, semiconductors, and peripherals fell 0.9 percent for the quarter despite a 0.6-percent increase in March. Export prices for automotive vehicles and consumer prices also increased for the December 2009–March 2010 period, rising 0.5 percent and 0.3 percent, respectively.

International Services Indexes

Both import air passenger fares and export air passenger fares declined between December 2009 and March 2010 despite increases in March. Import air passenger fares decreased 1.6 percent, led by a 10.0-percent drop in Asian fares over the 3-month period. Export air passenger fares decreased 3.0 percent, a decline that was driven by a 3.1-percent drop in European fares. The first quarter is generally regarded as the low season when fares typically decline. Prices rebounded in March in response to increasing fuel prices. Notwithstanding the first quarter declines, import air passenger fares rose 11.0 percent for the year ended in March and export air passenger fares increased 6.8 percent over the same period. In addition to higher fuel prices, rising air travel demand and fewer seats contributed to the increasing price trend for air passenger fares.¹⁶

Import air freight prices fell 4.8 percent for the first quarter of 2010. The decrease was driven by the rising value of the U.S. dollar in recent months which had a greater

impact than rising fuel prices. In contrast, export air freight prices increased 1.2 percent over the same period.



For further information, please contact
Dave Mead at 202-691-7101, or e-mail at
Mead.Dave@bls.gov

Notes

¹ The average exchange rate index used to convert U.S. dollar price indexes into foreign currency indexes are lagged a month. The U.S. dollar price indexes have a reference period that is the first of the month. Therefore the price index for January measures price change from December 1st to January 1st. The appropriate exchange rate to use to convert that into foreign currency terms is then the average exchange rate for the month prior to the reference period. The price index for January would be converted using the average exchange rate over December.

² *Oil Market Report* (International Energy Agency, March 12, 2010).

³ See “Total OPEC Output Falls 0.77% in March vs. February,” Dow Jones Newswires, April 1, 2010.

⁴ *Oil Market Report* (International Energy Agency, March 12, 2010).

⁵ See “Wall Street is driving up Oil Demand,” *MSNBC.com*, March 31, 2010.

⁶ *Weekly Natural Gas Storage Report* (U.S. Energy Information Administration, April 1, 2010).

⁷ See “Aluminum demand in China to rise 20%, Chalco says (Update 1),” *Bloomberg Business Week*, March 23, 2010.

⁸ See “Fertilizer producers still see strong U.S. spring,” *Reuters*, March 17, 2010.

⁹ *Crow’s Weekly Market Report* (Research Information Systems Incorporated (RISI), March 12, 2010).

¹⁰ See “The Chile Earthquake: Possible consequences for wood products markets,” *Crow’s Weekly Market Report*, March 12, 2010.

¹¹ *World Agricultural Supply and Demand Estimates* (U.S. Department of Agriculture, March 10, 2010).

¹² *World Agricultural Supply and Demand Estimates* (U.S. Department of Agriculture, March 10, 2010).

¹³ *World Agricultural Supply and Demand Estimates* (U.S. Department of Agriculture, March 10, 2010).

¹⁴ *Quarterly Hogs and Pigs Report* (U.S. Department of Agriculture, March 26, 2010).

¹⁵ See “Early season market outlook,” *Western Farm Press*, April 5, 2010; “Walnut market strengthens in face of higher production,” *Western Farm Press*, March 3, 2010; and “A pleasing pecan price turnaround,” *Western Farm Press*, February 17, 2010.

¹⁶ See “Airlines rise 13% on summer rebound, Travelocity says (Update 2),” *Bloomberg Business Week*, April 5, 2010.