



FOCUS on Prices and Spending



Import and Export Prices: Fourth Quarter 2010

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Current Price Topics

U.S. Export Prices Up as World Grain Stockpiles Decline

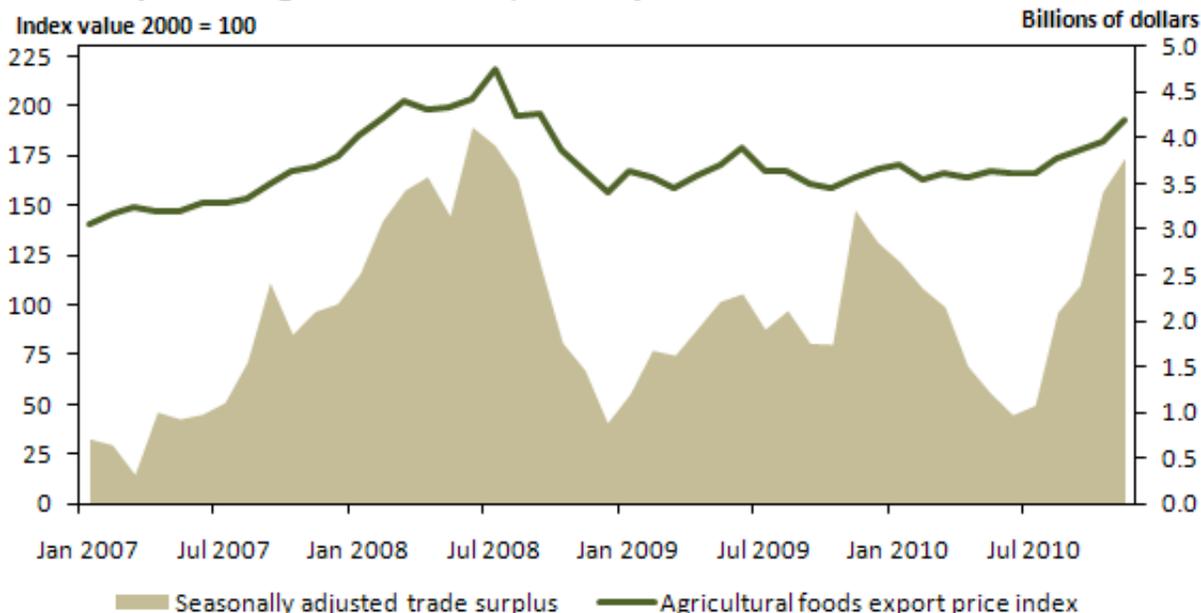
Agriculture is a major component of U.S. exports and is one of the few economic sectors in which the Nation typically runs a trade surplus. Recently, the importance of agricultural exports was highlighted by the impact of rising grain prices. In 2010, flooding and drought conditions affected crop yields worldwide and resulted in grain stockpiles dropping to critical lows. In response to wildfires and drought conditions affecting crops, Russia announced a temporary ban on grain exports in August, setting off

shock waves that influenced the market.¹ Soon afterwards, grains and oilseed prices began to increase as fears were raised about the adequacy of global food supplies. In response to past periods of surging global prices and trade instability—most notably in 2008—the United States has been capable of increasing exports to contribute to world food stocks. How did the U.S. export position and balance of trade respond to this price shock in comparison to other events in recent memory? The BLS agricultural export price indexes shed some light on this topic.

The BLS export price index for agricultural foods, feeds, and beverages rose 16 percent between July 2010 and December 2010. (See chart 1.)

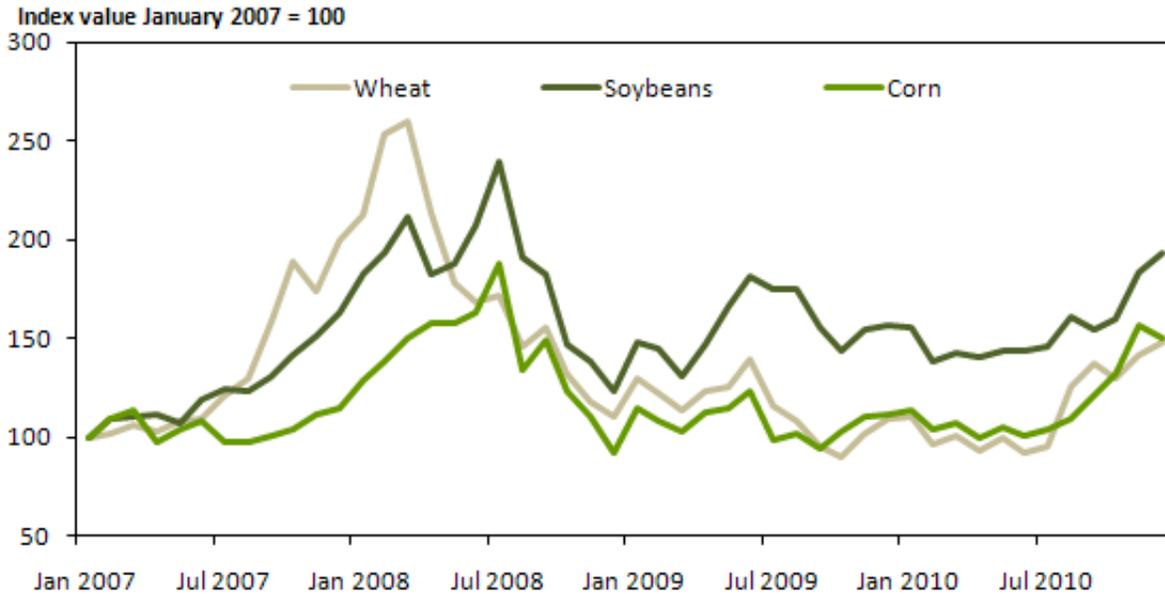
Similarly, the U.S. trade balance in grains also

Chart 1. U.S. Export price index for agricultural food and U.S trade surplus for agricultural food, January 2007–November 2010



SOURCES: Price index from the U.S. Bureau of Labor Statistics, trade surplus from the U.S. Census Bureau

Chart 2. U.S. Export price indexes for selected grains, January 2007–December 2010



SOURCE: U.S. Bureau of Labor Statistics

rose, contributing to a significant advance in the overall U.S. agricultural trade balance. In November 2010, the seasonally adjusted monthly surplus for agricultural foods approached nearly \$3.8 billion dollars, comparable to the \$4.1 billion surplus reached at the June 2008 peak of the 2007–08 food crisis. The recent rise in both grain prices and export volumes provided significant contributions to the improvement in the agricultural trade balance.

Most of the increase in the agricultural food export prices during the second half of 2010 can be attributed to a spike in wheat, corn, and soybean prices. The Russian export ban, in conjunction with lower harvests in a number of other major grain-producing countries,

directly affected global wheat prices, driving them to 2-year highs. As evidenced by the BLS wheat export price index, U.S. export prices increased 54.8 percent between July 2010 and December 2010, compared with 4.5 percent for all exports. (See chart 2.) The recent surge in wheat prices resembles price trends during the last global food crisis in 2007–08, when the wheat export price index soared 56.4 percent between June 2007 and July 2008. At that time, the United States increased exports, unlike many other grain-producing nations, which reacted to the crisis by limiting exports to ensure that sufficient supply remained available to domestic markets. During the first half of the 2007–08 marketing year (June 2007–November 2007), U.S. wheat exports soared to more than 727 million bushels, a

74-percent increase over the same period the previous year, with total wheat exports topping 1.2 billion bushels for the 2007–08 marketing year (June 2007–May 2008) and reaching slightly more than 993 million bushels for the 2008–09 marketing year.² In a similar turn of events, U.S. wheat exports have risen to more than 568 million bushels during the first half of the 2010–11 marketing year (June 2010–November 2010), roughly a 30-percent increase over the same period in 2009. This increase has been a boon to the U.S. wheat industry, which has seen generally declining exports since the 1980s.

World corn prices also jumped to record high levels in 2010, primarily in response to unfavorable weather conditions in the United States, which, as the world's largest supplier of corn, has significant influence on global corn prices. Heavy rain and extreme heat caused the U.S. Department of Agriculture to cut the estimate of the 2010 corn harvest. Forecasts for South American production, particularly Argentina, the world's second-largest corn exporter, have also been reduced as La Niña threatened drought conditions in the region.³ As a result, the BLS price index for exported corn rose nearly 50 percent between June 2010 and December 2010. Despite the price increases, corn export levels also rose in 2010, totaling more than 1.8 billion bushels through November of 2010, compared with 1.7 billion bushels for the same 11-month period in 2009.⁴ Much of this increase was due to surg-

ing demand from emerging markets, most notably China, which also experienced a bad growing year and consequently imported 1.5 million metric tons of corn from the United States during the first 11 months of 2010, compared with less than 90,000 for the comparable period in 2009.⁵

Finally, soybean prices have also surged recently as the U.S. Department of Agriculture lowered the forecast for U.S. stocks on account of poor weather conditions. Export prices shot up 34.4 percent between June 2010 and December of 2010, hitting their highest levels since July 2008. As with corn, forecasts for South American soybean production have also been cut.⁶ The United States is the leading supplier of soybeans, so reductions in South American production will further boost demand for U.S. exports, again particularly from China, which has become the world's largest importer of soybeans.

Despite the aftermath of the Russian wheat export ban of 2010 and unfavorable growing conditions in key producing nations worldwide, major fears about global grain shortages similar to the 2007–08 food shock have not materialized. However, there are still significant concerns. First, weather problems across the globe are causing unease for upcoming wheat and corn crops, as seen recently in China where that country is facing their worst drought in 60 years; second, as opposed to 2010, global stock levels of wheat, corn, and soybean are now at critical lows; and third and

perhaps most important for the long run, in conjunction with indications of a global economic recovery, the demand for wheat, corn, and soybeans continues to rise.⁷ According to the U.N. Food and Agricultural Organization, in contrast to past cycles of price instability, the trend may be different this time around. Instead of grain prices peaking within the span of several months and then declining significantly, prices may remain higher for a longer time.⁸ Although short-run price and trade shifts tend to benefit U.S. exporters temporarily, a new pricing paradigm may increase the U.S. export position in the longer term.



was driven by an 11.9-percent increase in prices for fuels and lubricants, as well as a 12.0-percent increase in prices for industrial supplies and materials, excluding fuels.

Fuel import prices

Prices for imports of fuel climbed 11.9 percent in 2010, the second consecutive year the index has increased. In 2009, import fuel prices increased 62.2 percent, the second-highest calendar-year increase since the index was first published in 1984. The increase in 2010 was the result of steady increases in each of the last 3 months of the quarter. Until the fourth quarter of the year, fuel prices had actually decreased 1.0 percent, but over the final quarter, the index rose 13.1 percent, to finish the year up almost 12 percent. In 2009, prices rebounded after a 47.0-percent decline in 2008.

Petroleum prices led the increase in 2010, rising 13.7 percent, with the majority of the increase happening in the final quarter of the year. During that period, prices increased 13.5 percent after ticking up 0.2 percent during the first three quarters of the year. Strong economic growth in Asia, espe-



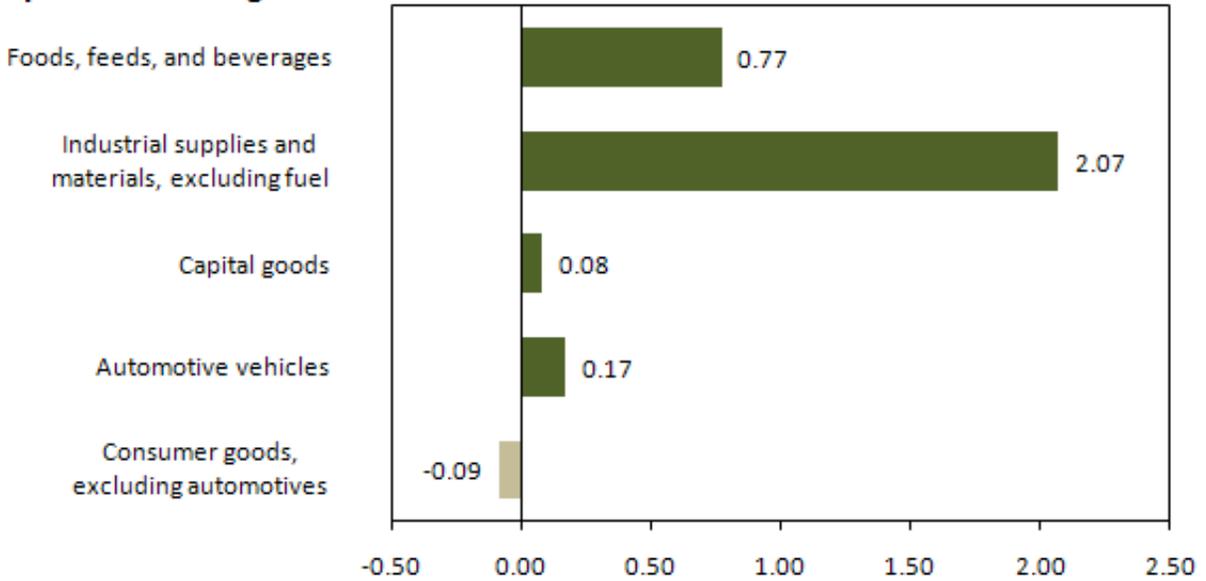
Import prices

Import prices increased 4.8 percent in 2010, following an increase of 8.6 percent for the previous year and a 10.1-percent decrease in 2008. (See table.) The 2010 increase

Summary of December-to-December percent changes, in import and export prices for selected commodities 2001–10

Commodity	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
All-commodity imports	-9.1	4.2	2.4	6.7	8.0	2.5	10.6	-10.1	8.6	4.8
Excluding fuels	NA	0.0	1.0	3.0	1.1	2.9	3.1	1.2	0.3	3.0
Fuels	-41.9	53.7	13.2	31.5	43.5	0.9	42.1	-47.0	62.2	11.9
All-commodity exports	-2.5	1.0	2.2	4.0	2.8	4.5	6.0	-2.9	3.4	6.5
Excluding agricultural	-2.5	0.4	1.3	5.0	2.6	3.7	4.5	-2.2	2.9	5.1
Agricultural	-1.8	8.0	13.4	-5.9	4.9	13.5	23.3	-10.9	9.2	20.2

Chart 3. Major contributors to the 3.0-percent increase in 2010 in import prices excluding fuel



SOURCE: U.S. Bureau of Labor Statistics

NOTE: Due to rounding, figures do not add to total.

Percent change contribution

cially China, along with declining industry stocks in OECD countries, drove prices up during the year. Global oil supply also declined by 0.3 million barrels per day in December, because of outages that included an Alaskan pipeline leak and a fire at a Canadian oil sands facility.⁹ The increase in 2010 followed a 78.6-percent increase in 2009. Natural gas prices partially offset the increase in petroleum prices during 2010, declining 11.3 percent. Production of natural gas from North American shale formations rose during the year, increasing U.S. reserve levels.¹⁰

Nonfuel import prices

During 2010, prices for nonfuel imports also increased, but at a much lower rate than those for imported fuel. For the year, nonfuel import

prices rose 3.0 percent, the 8th consecutive year the index has increased and the largest calendar-year advance since prices increased 3.1 percent in 2007. As shown in chart 3, higher prices for industrial supplies and materials, excluding fuels, were the most significant contributor to the overall increase in nonfuel import prices. Prices for foods, feeds, and beverages, up 13.1 percent, along with automotive vehicles, and capital goods, which rose 1.1 percent and 0.2 percent, respectively, also contributed to the overall increase, though to a much smaller extent. Prices for consumer goods declined 0.3 percent in 2010.

Prices for industrial supplies and materials, excluding fuels, increased 12.0 percent in 2010, the largest calendar-year rise since a 13.4-percent increase in 2004. Higher prices for unfin-

ished metals and chemicals led the advance in 2010, rising 19.7 percent and 12.0 percent, respectively. Prices for fertilizers, gold, and other precious metals all contributed to the increase. Rising demand for fertilizer drove prices up as farmers sought to boost yields in the face of higher agricultural commodity prices.¹¹

Prices of foods, feeds, and beverages jumped 13.1 percent in 2010, after a comparatively modest 1.0 percent rise in 2009. The 2010 increase was the largest calendar-year increase since a 14.7-percent advance in 1994. The price index for green coffee, cocoa beans, and sugar led the 2010 advance, rising 28.6 percent over the past year. The supply of coffee beans was hampered by rainy weather in Brazil, resulting in fungal infections that damaged trees. Poor weather affected coffee beans in Columbia, Vietnam, and India.¹² At the same time, global consumption of coffee has continued to grow, putting further stress on reduced supplies. Political unrest in Côte d'Ivoire, the world's largest producer of cocoa, factored heavily into higher world cocoa prices.¹³

Prices for automotive vehicles, parts, and engines ticked up 1.1 percent in 2010. The increase was the largest since a 2.4-percent increase in 2007 and marked the ninth consecutive year that prices have increased, going back to a 0.2-percent decrease in 2001. A combination of higher prices for metals and a weakening of the dollar contributed to the overall increase. The price index for capital goods ticked up 0.2 percent, while, in contrast, the price index for consumer goods declined

0.3 percent for the second consecutive year.

Import prices from China

On June 19, the Central Bank of China announced that it would allow the yuan to float relative to the U.S. dollar. As highlighted in the *Second-Quarter Import and Export Inflation Spotlight*, this announcement led to speculation that import prices from China might start to rise in response a weak U.S. dollar.¹⁴ Initially, there was little impact, as import prices from China were virtually unchanged during the third quarter, ticking up 0.1 percent. However, prices of imports from China did begin to rise more significantly during the fourth quarter, advancing 0.9 percent, which drove the index up 0.8 percent overall in 2010. In contrast, import prices had fallen 1.8 percent the previous year.

Export prices

U.S. export prices increased 6.5 percent in 2010, the largest calendar-year increase since the index was first published in 1983. The increase in 2010 followed a 3.4 percent increase in 2009 and a 2.9-percent decrease in 2008. The price indexes for agricultural commodities and nonagricultural commodities both contributed to the overall increase in export prices for 2010, although the increases in agricultural prices were more pronounced.

Agricultural export prices

Prices for agricultural exports climbed 20.2 percent in 2010, following an increase of 9.2 percent in 2009 and a 10.9-percent decrease

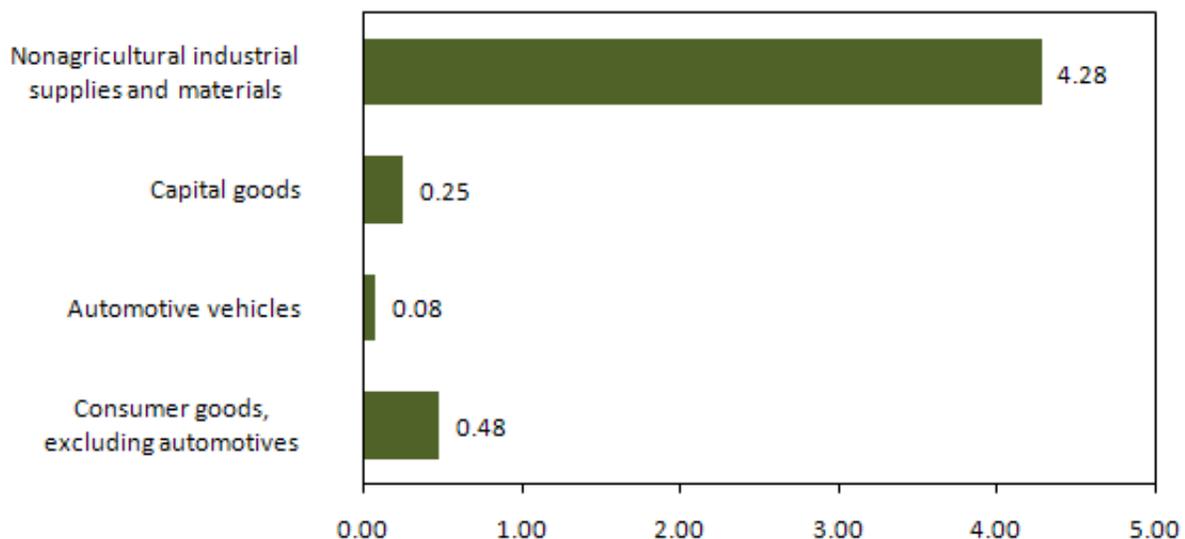
in 2008. The 2010 calendar-year increase was the second-largest calendar-year advance since the index was first published in 1985, behind a 23.3-percent increase in 2007. Over the last 4 years, the index has increased by more than 44 percent. Corn, soybean, and wheat prices, discussed in detail in the section on current prices, all contributed to the rise in agricultural export prices. In addition to the higher grain prices, prices for cotton increased 107.0 percent in 2010. While this rise was part of a broad commodities rally throughout the year, fears of a shortage of supply and strong global demand underpinned the surge in price. Devastating floods in Pakistan, the world's fourth-largest cotton supplier, along with export restrictions in India, and strong demand in China that outstripped domestic production, all contributed to the historic rise in cotton prices.¹⁵

Nonagricultural export prices

Prices for nonagricultural exports increased 5.1 percent in 2010. The increase was the largest calendar-year advance since a 5.9-percent rise in 1987. As can be seen in chart 4, rising prices for nonagricultural industrial supplies and materials drove the increase. Higher prices for capital goods, automotive vehicles, and consumer goods, excluding automotives, also contributed to the increase, although their impact was much less significant.

In 2010, prices for nonagricultural industrial supplies and materials increased 13.5 percent. The advance followed a 6.9-percent increase in 2009 and a 9.3-percent decline the previous year. The rise in 2010 was the largest calendar-year increase since a 16.6-percent advance in

Chart 4. Major contributors to the 5.1-percent increase in 2010 in export prices excluding agriculture



SOURCE: U.S. Bureau of Labor Statistics

NOTE: Due to rounding, figures do not add to total.

2004. A broad commodities rally was responsible for the increase, with prices for fuels, metals, and chemicals all being contributing factors. Export prices for both gold and copper increased by 21.9 percent and 25.9 percent, respectively, for the year, while chemical prices were up 10.4 percent.

Consumer goods prices rose 3.4 percent in 2010. The increase was the largest calendar-year advance since a 3.8-percent increase in 1990. Rising prices for medicinal, dental, and pharmaceutical

preparatory materials, as well as for textile apparel and footwear, were the major contributors to the increase. Capital goods prices advanced a comparatively modest 0.6 percent in 2010. Rising prices for generators, as well as for parts and engines for civilian aircraft, were the major factors for the increase.

For more information, contact Justin Byrne (202) 691-7085, or by email (byrne.justin@bls.gov), or Edwin Bennion (202) 691-7142 or by email (bennion.edwin@bls.gov). 

Notes

¹ See “Russian grain harvest so far this season declines 31% after drought damage,” *Bloomberg*, Aug. 25, 2010.

² Wheat data from yearbook tables, U.S. total wheat exports from grain flour and products (U.S. Department of Agriculture, January 2011). For more information about the U.S. Department of Agriculture wheat report, visit <http://www.ers.usda.gov/Data/Wheat/YBtable21.asp> on the Internet. Note that the U.S. Department of Agriculture defines the marketing year for wheat to run from June through the following May.

³ See “Soybeans gain on speculation about drought damage to Argentina’s harvest,” *Bloomberg*, Dec. 30, 2010.

⁴ Feed grains data from yearbook tables, U.S. corn and sorghum exports (U.S. Department of Agriculture, January 2011). For more information about the U.S. Department of Agriculture corn and sorghum report, visit <http://www.ers.usda.gov/data/feedgrains/Table.asp> on the Internet.

⁵ U.S. agricultural exports, year to date and current months (U.S. Department of Agriculture, December 2010). For more information about the U.S. Department of Agriculture soybeans report, visit <http://www.ers.usda.gov/data/FATUS> on the Internet.

⁶ See “Buenos Aires cereals exchange reduces forecast for Argentinean crop,” *Bloomberg*, Jan. 30, 2011.

⁷ See “U.N. food agency issues warning on China drought,” *The New York Times*, Feb. 8, 2011.

⁸ See “Grain Prices Surge; Further Rises Likely in 2011,” *The Wall Street Journal*, Dec. 2, 2010.

⁹ Oil Market Report (International Energy Agency, Jan. 18, 2010). For more information about the International Energy Agency, visit <http://www.iea.org/about/index.asp> on the Internet.

¹⁰ See “U.S. gas: futures rise, but end year at lowest year-end price since 2001,” *The Wall Street Journal*, Dec. 31, 2010.

¹¹ See “Fertilizer prices on the rise,” AgWeb.com, Sept. 14, 2010.

¹² See “Coffee price jumps to 13-year high; cocoa, orange juice rise,” *Bloomberg*, Dec. 21, 2010; “Robusta prices go up on Vietnam dry weather,” *Commodity Online*, June 28, 2010; and “Columbian coffee crop may be cut by wet weather,” *The Spec.com*, Nov. 25, 2010.

¹³ See “Cocoa prices rise after Ivory Coast election turmoil,” *The Guardian*, Dec. 22, 2010.

¹⁴ *Focus on Prices and Spending: Second Quarter 2010* (U.S. Bureau of Labor Statistics, August 2010). For more information about the report, visit http://www.bls.gov/opub/focus/volume1_number5/ipp_1_5.pdf on the Internet.

¹⁵ See “Cotton prices surge; will you pay?” *ABC News/Money*, Nov. 12, 2010.