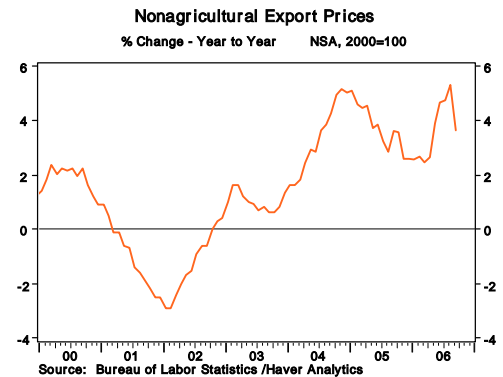
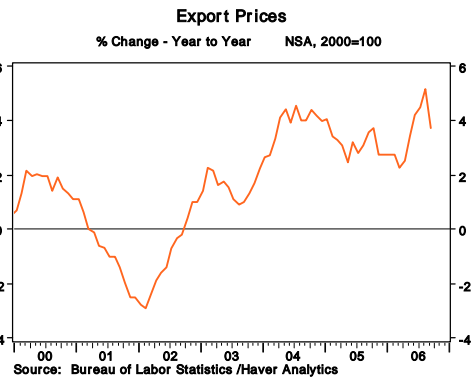
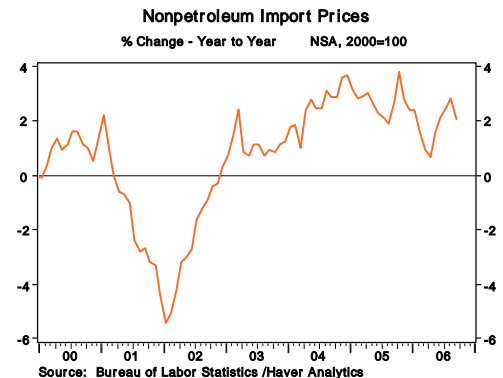
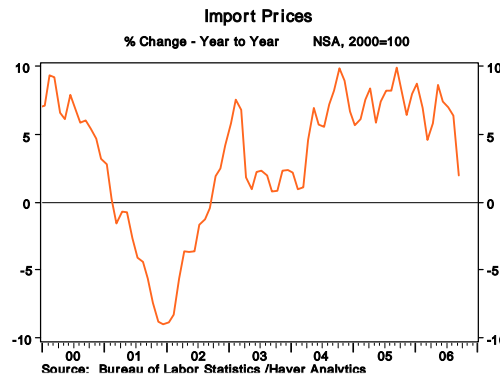


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## SEP IMPORT / EXPORT PRICES

- Import prices fell 2.1% in September after a 0.8% gain in August. Excluding a 10.3% drop in petroleum prices, import prices rose 0.1% last month. Excluding all fuels, import prices increased 0.3%.
- Export prices unexpectedly fell 0.5% in September after a 0.4% increase in August. Non-agricultural prices also slid 0.5% last month. However, in the past year, non-agricultural export prices have risen 3.7%.



**Implications:** Once again, energy prices played havoc with inflation data. Overall import prices in September fell by the largest amount since April 2003. However, excluding fuels import prices increased 0.3% in September and are up 2.9% in the past year. While export prices declined during September, the long term trend

continues to signal building inflationary pressures. Non-agricultural export prices are up 3.7% in the past year, significantly higher than the 15-year average increase of 1.0%. While some believe that falling energy prices will pull down all prices, inflation is a monetary phenomenon. It is not caused by high, or rising, energy prices. We suspect that “core” inflationary pressures will continue to build even if energy prices slide further. The economy is not as weak as many believe; the Fed is not running a tight monetary policy, and even if it were, the lags between Fed rate hikes and slower inflation have not fully played out. As a result, we do not believe that the US is out of the inflationary woods yet.

<b>Import and Export Prices</b> <i>Data not seasonally adjusted</i>	Sep/06	Aug/06	Jul/06	3-mo % ch. <i>annualized</i>	6-mo % ch. <i>annualized</i>	Yr-over-Yr % Change
<b>All Imports</b>	<b>-2.1%</b>	0.8%	0.8%	-2.0%	7.2%	2.0%
<b>Non-Petroleum</b>	<b>0.1%</b>	0.5%	0.1%	2.7%	3.7%	2.0%
<b>Petroleum &amp; Petroleum Products</b>	<b>-10.3%</b>	2.1%	3.9%	-18.1%	24.1%	2.9%
<b>Capital Goods</b>	<b>0.0%</b>	0.0%	0.1%	0.4%	0.4%	-0.2%
<b>Autos, Parts &amp; Engines</b>	<b>0.1%</b>	0.0%	0.2%	1.2%	1.4%	0.6%
<b>All Exports</b>	<b>-0.5%</b>	0.4%	0.4%	1.1%	5.0%	3.7%
<b>Non-agricultural</b>	<b>-0.5%</b>	0.5%	0.2%	0.4%	4.5%	3.7%
<b>Agricultural</b>	<b>-0.7%</b>	0.9%	1.9%	9.0%	10.4%	4.4%
<b>Capital Goods</b>	<b>0.0%</b>	-0.2%	0.1%	-0.4%	0.2%	0.7%
<b>Motor Vehicles</b>	<b>0.1%</b>	0.0%	0.2%	1.1%	1.5%	1.4%

Source: Bureau of Labor Statistics