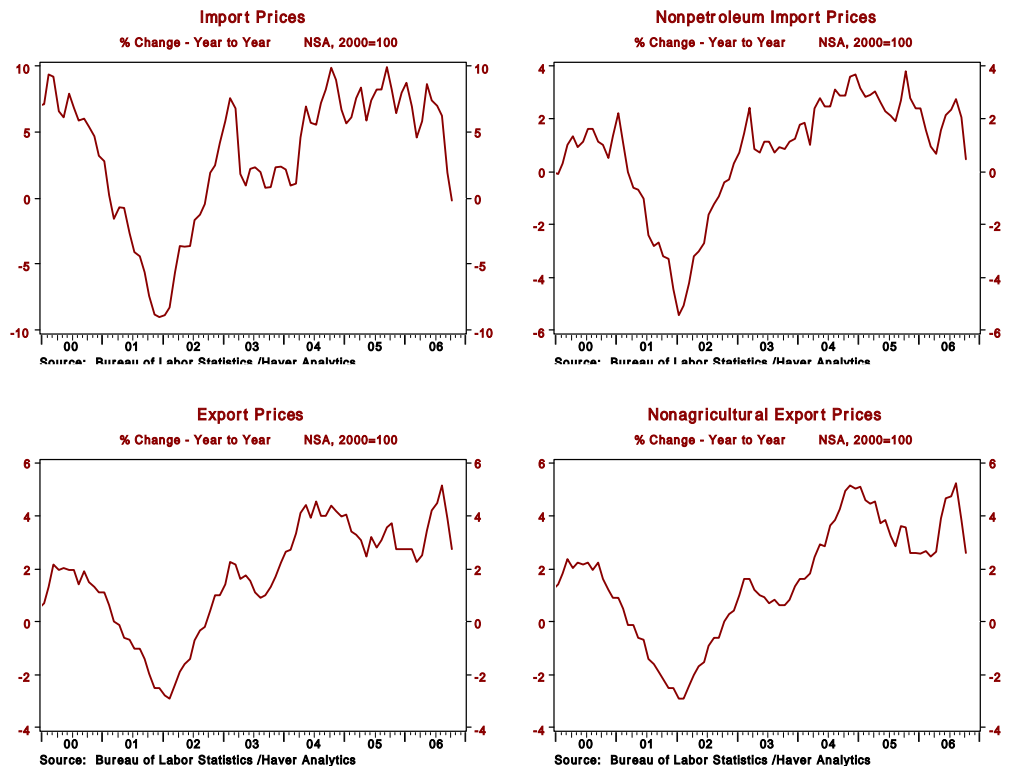


OCTOBER IMPORT / EXPORT PRICES

- Import prices fell 2.0% in October after a similar drop of 2.0% in September. Excluding petroleum, import prices still fell by 0.6% last month. Excluding all fuels, import prices fell by 0.1%.
- Export prices unexpectedly fell 0.4% in October after a similar 0.4% decline in September. Export prices are up 2.8% in the past year. Non-agricultural prices slid 0.5% last month. In the past year, non-agricultural export prices are up 2.6%.

Implications: Once again, plummeting energy prices pulled import prices lower. In October petroleum prices fell 8.3%, after an even larger 9.7% decline in September. This drop in oil prices led to a much smaller US trade deficit in September and will do the same in October. Excluding all fuels, US import prices fell 0.1% in October, but are up 2.5% in the past year. While export prices declined during October, the long term trend continues to signal building inflationary pressures. Non-agricultural export prices are up 2.6% in the past year, a level of increase very close to “core” measures of consumer prices and significantly higher than the 10-year average annual increase of 0.8%. Capital goods export prices rose 0.2% in October and are up 1.0% in the past year, the largest increase in 10 ½ years. Despite rising prices, and a productivity boom in the manufacturing sector, actual non-auto, US capital goods exports to foreigners, are up 13.6% in the past year. Inflationary pressures are more imbedded than conventional wisdom understands. As a result, we continue to believe the odds of any Fed rate cut are much lower than those incorporated in current market prices.



Import and Export Prices <i>Data not seasonally adjusted</i>	Oct-06	Sep-06	Aug-06	Yr-over-Yr % Change
All Imports	-2.0%	-2.0%	0.7%	-0.2%
Non-Petroleum	-0.6%	0.2%	0.5%	0.5%
Petroleum & Petroleum Products	-8.3%	-9.7%	1.5%	-2.9%
Capital Goods	-0.1%	0.0%	0.0%	-0.1%
Autos, Parts & Engines	0.3%	0.0%	0.0%	0.7%
All Exports	-0.4%	-0.4%	0.4%	2.8%
Non-agricultural	-0.5%	-0.3%	0.4%	2.6%
Agricultural	1.1%	-0.5%	0.9%	5.4%
Capital Goods	0.2%	0.2%	-0.2%	1.0%
Motor Vehicles	0.1%	0.0%	0.1%	1.3%

Source: Bureau of Labor Statistics