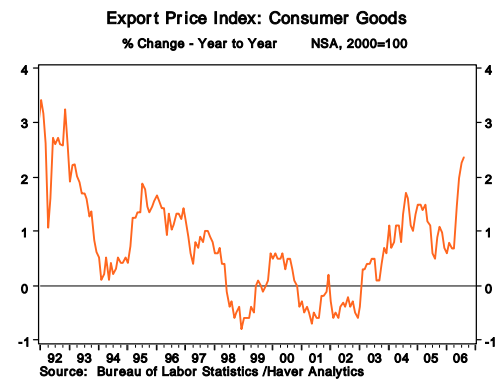
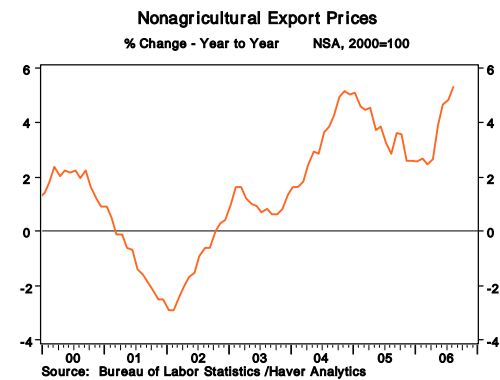
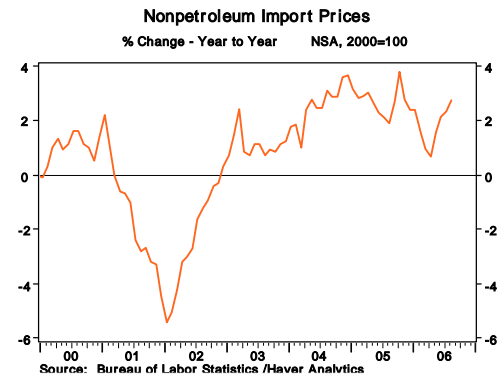
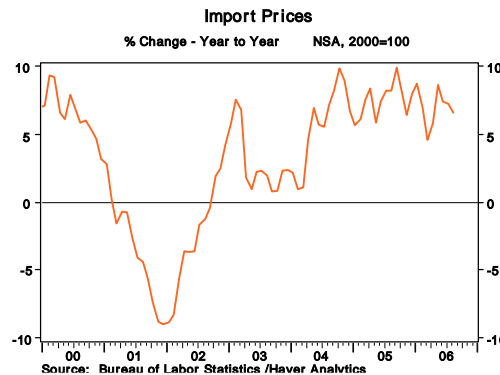


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AUGUST IMPORT / EXPORT PRICES

- Import prices surged 0.8% in August after a 1.0% gain in July. Excluding a 2.3% increase in petroleum prices, import prices rose 0.5% last month and are up 2.7% in the past year.
- Export prices increased 0.4% in August after a 0.4% increase in July. Non-agricultural prices increased 0.4% last month. In the past year, non-agricultural export prices have risen 5.3%, the fastest YOY gain since 1995.



Implications: Overall import prices surged in August, with a jump in petroleum prices accounting for just some of the gain. Non-petroleum import prices rose 0.5% last month, and are up 2.7% from year-ago levels. This is significantly higher than the 15-year annual average of 0.5%. Accommodative monetary policy has also lifted export prices, which rose 0.4% in August and 5.2% in the past year. Export prices of consumer goods excluding autos have risen 2.4% in the past 12 months – the fastest YOY gain since 1992. This disputes the myth that the bulge in inflation is just an energy phenomenon. With gold still 34% above the 2005 average and the dollar down 4.7% this year, the most sensitive indicators suggest inflation continues to build. Inflationary pressures are unlikely to soften until the fed funds rate is brought to a neutral level (our current estimate of neutral is 6.0%).

Import and Export Prices <i>Data not seasonally adjusted</i>	Aug-06	Jul-06	Jun-06	3-mo % ch. <i>annualized</i>	6-mo % ch. <i>annualized</i>	Yr-over-Yr % Change
All Imports	0.8%	1.0%	0.1%	8.1%	12.2%	6.6%
Non-Petroleum	0.5%	0.0%	0.4%	3.5%	2.7%	2.7%
Petroleum & Petroleum Products	2.3%	5.1%	-1.1%	27.8%	60.4%	24.3%
Capital Goods	0.1%	0.1%	0.2%	1.8%	0.7%	-0.3%
Autos, Parts & Engines	0.0%	0.2%	0.2%	1.6%	1.2%	0.6%
All Exports	0.4%	0.4%	0.7%	6.3%	6.5%	5.2%
Non-agricultural	0.4%	0.3%	0.6%	5.2%	6.0%	5.3%
Agricultural	1.0%	1.9%	2.5%	23.7%	11.4%	3.5%
Capital Goods	-0.3%	0.0%	0.0%	-1.2%	0.0%	0.5%
Motor Vehicles	0.0%	0.2%	0.2%	1.5%	1.7%	1.4%

Source: Bureau of Labor Statistics