Economic Analysis

Import and Export Prices Fall Again in February

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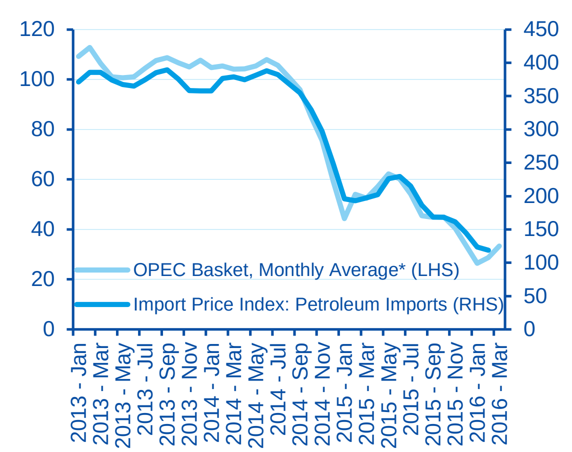
- **Import prices fell 0.3% month-on-month, the smallest decline in eight months**
- **Nonagricultural export prices decreased 0.4%, but agricultural export prices increased 0.6%**
- **Higher oil prices and a weaker U.S. dollar should help stabilize prices moving forward**

U.S. import prices continued to fall in February for the eighth month in a row, but the decline of 0.3% month-on-month was the smallest of this period. The decline continued to be driven mostly by a drop in fuel prices. The price index for petroleum imports declined 3.9% on a month-on-month basis, likely a result of January's low oil prices, as the index lags oil price movements slightly (Chart 1). In March, we expect to see a reversal in the index due to the increase in oil prices in February.

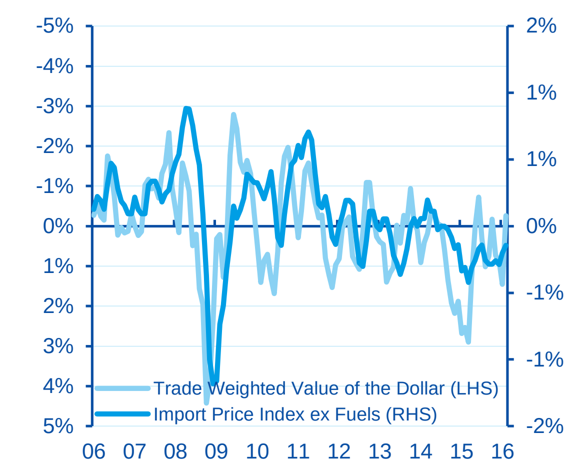
The price index for nonfuel imports declined 0.1% month-on-month due to lower prices for foods, feeds, and beverages. The change in the index for nonfuel imports is inversely correlated with and lags the change in the U.S. dollar exchange rate (Chart 2). As the U.S. dollar weakened since the end of January, it is quite possible that there will not be any more declines in nonfuel import prices in the coming months.

Chart 1
Oil Prices and Import Prices
$ and Index



Source: Bloomberg, BLS and BBVA Research

Chart 2
Exchange Rate and Import Prices
% MoM 3-month MA (LHS Inverted)



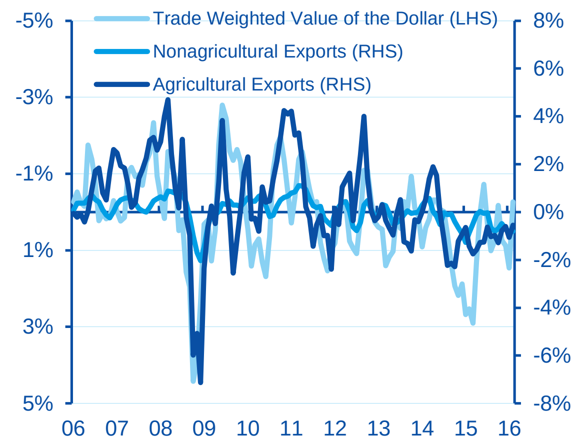
Source: FRB, BLS and BBVA Research

Export prices decreased 0.4% due to declining nonagricultural prices. The decline in nonagricultural prices was driven mostly by lower prices for industrial supplies and materials, but lower prices for automotive vehicles and

* The average for March covers March 1-10

consumer goods also contributed. Prices for capital goods increased, on the other hand, driven by transportation vehicles excluding motor vehicles, which mainly includes aerospace products, railroad rolling stock, and ships and boats.

Chart 3
Exchange Rate and Export Prices
% MoM 3-month MA (LHS Inverted)



Source: FRB, BLS and BBVA Research

Export prices for agricultural commodities increased by 0.6% month-on-month, driven by increases in fruit, meat and corn prices. Both nonagricultural and agricultural export prices are expected to react positively to the relative weakening in the U.S. dollar since the end of January. The lag behind the changes in the exchange rate is longer for non-agricultural products (Chart 3), so that is likely why we are seeing an increase in agricultural prices before we see any increase in nonagricultural prices.

Overall, February's import and export price data provide indications that their slide is slowing down and that they could stabilize in the next months. If we see a continuation in both the ongoing (albeit gradual) increase in oil prices and the depreciation of the U.S. dollar against major currencies compared to January, then we should see further improvement in the March report. January's CPI and PCE figures pointed to upward inflationary trends, and the import and export price data released for February support such movements going forward.