

## **Prefatory Note**

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September 15, 2006

# CURRENT ECONOMIC AND FINANCIAL CONDITIONS

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## **Supplemental Notes**

Prepared for the Federal Open Market Committee  
by the staff of the Board of Governors of the Federal Reserve System

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## Supplemental Notes

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### The Domestic Nonfinancial Economy

#### Consumer Prices

The consumer price index rose 0.2 percent in August, down from the much larger increases seen, on average earlier this year; smaller increases in energy prices and in housing costs last month contributed to the moderation. As a result, the three-month change in the CPI moved down from 5.7 percent in May to 3.6 percent in August. Over the twelve months ending in August, the overall CPI rose 3.8 percent, up  $\frac{1}{4}$  percentage point from a year earlier. Excluding food and energy, the CPI rose 0.2 percent in August for a second consecutive month. The three-month change in the core CPI was 3 percent in August while the twelve-month change stood at 2.8 percent.

The index for consumer energy prices rose only 0.3 percent in August, as increases in gasoline prices early in the month were almost completely offset by the sharp downturn in prices over the remainder of the month. Available survey data for gasoline point to a sizable decline in the CPI for gasoline in the September. Consumer food prices rose 0.4 percent in August, reflecting a large increase in the prices for fresh vegetables and a rebound in the index for meats, poultry, fish, and eggs.

Prices of core goods rose 0.2 percent in August, after having slipped 0.1 percent in the preceding month. Both the decline in July and the rebound in August were driven by swings in nondurable goods; in particular, apparel prices moved up 0.9 percent in August after having fallen 1.2 percent the month before. Compared with a year earlier, core goods prices were 0.6 percent higher, about the same as the increase in the preceding year.

Prices of core services rose 0.2 percent last month, down from the increases of 0.4 percent per month posted in each of the previous three months. Rent of shelter rose 0.2 percent in August; the increase in owners' equivalent rent slowed to 0.3 percent, and the index for lodging away from home declined. Prices for non-energy services have moved up 3.7 percent since August 2005, compared with an increase of 2.7 percent in the preceding year.

The chained CPI or C-CPI-U rose 3.4 percent during the twelve months ending in August, 0.4 percentage point less than the change in the official index. The corresponding change in the core C-CPI-U was 2.7 percent, 0.1 percentage point less than the official core CPI.

**Consumer Price Measures**  
(Percent change)

Measures	12-month change		3-month change		1-month change	
	Aug. 2005	Aug. 2006	Annual rate		Monthly rate	
			May 2006	Aug. 2006	July 2006	Aug. 2006
<i>CPI</i>						
<b>Total</b>	<b>3.6</b>	<b>3.8</b>	<b>5.7</b>	<b>3.6</b>	<b>.4</b>	<b>.2</b>
Food	2.2	2.4	.6	3.5	.2	.4
Energy	20.2	15.1	35.0	9.4	2.9	.3
<b>Ex. food and energy</b>	<b>2.1</b>	<b>2.8</b>	<b>3.8</b>	<b>3.0</b>	<b>.2</b>	<b>.2</b>
Core commodities	.7	.6	1.7	.6	-.1	.2
Core services	2.7	3.7	4.4	4.0	.4	.2
Chained CPI (n.s.a.) <sup>1</sup>	3.0	3.4	...	...	...	...
Ex. food and energy <sup>1</sup>	1.8	2.7	...	...	...	...
<i>PCE prices</i> <sup>2</sup>						
<b>Total</b>	<b>3.0</b>	<b>3.2</b>	<b>4.8</b>	<b>2.9</b>	<b>.3</b>	<b>.2</b>
Food	1.9	2.4	1.8	3.0	.2	.3
Energy	20.8	15.9	40.4	10.3	3.2	.3
<b>Ex. food and energy</b>	<b>2.0</b>	<b>2.5</b>	<b>3.1</b>	<b>2.3</b>	<b>.1</b>	<b>.2</b>
Core commodities	.0	.2	1.4	-.3	-.2	.2
Core services	2.9	3.4	3.8	3.4	.3	.2
Core market-based	1.7	2.1	3.0	2.0	.1	.2
Core non-market-based	3.4	n.a.	3.3	n.a.	.3	n.a.

1. Higher-frequency figures are not applicable for data that are not seasonally adjusted.

2. PCE prices in August are staff estimates.

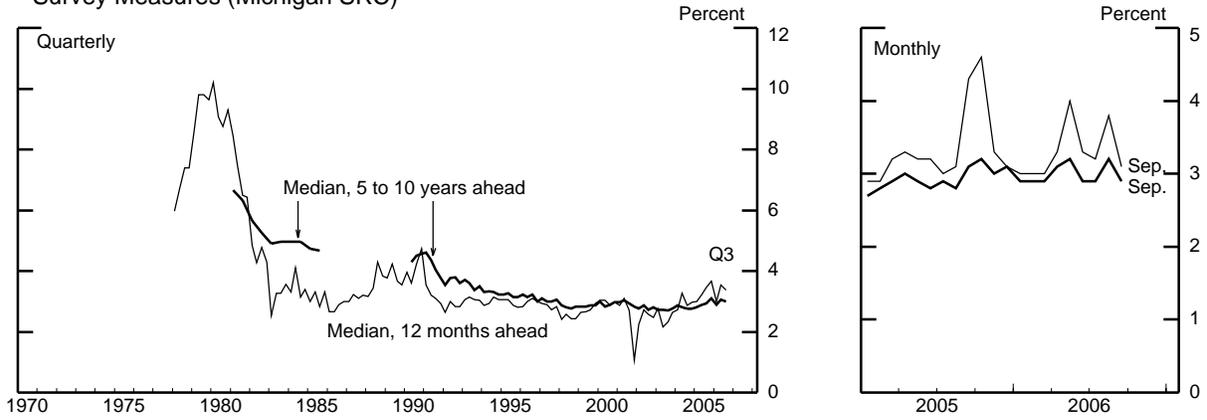
... Not applicable.

**Producer Price Measures**  
(Percent change)

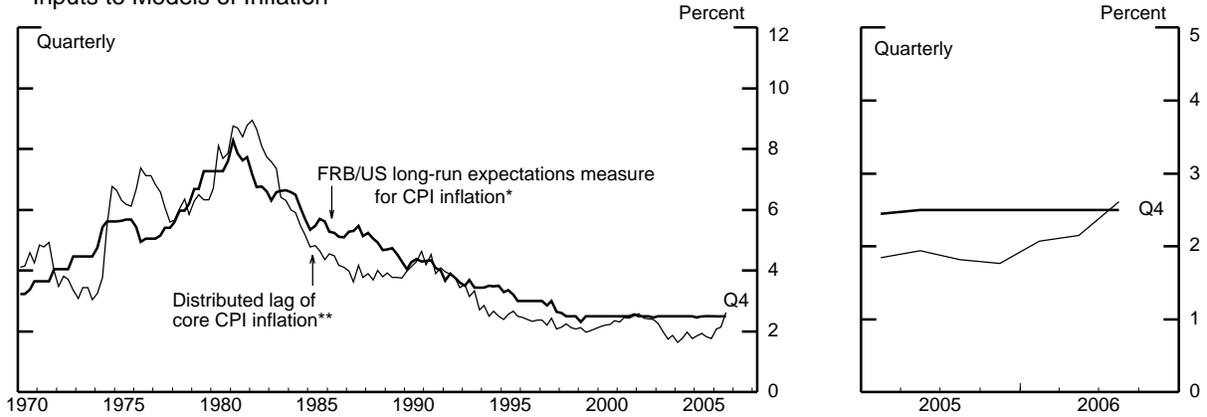
Measures	12-month change		3-month change		1-month change	
	July 2005	July 2006	Annual rate		Monthly rate	
			Apr. 2006	July 2006	June 2006	July 2006
<i>PPI</i>						
<b>Total finished goods</b>	<b>4.7</b>	<b>4.2</b>	<b>.5</b>	<b>3.3</b>	<b>.5</b>	<b>.1</b>
Food	1.4	1.1	-7.4	2.9	1.4	-.3
Energy	15.4	16.3	3.3	10.0	.7	1.3
<b>Ex. food and energy</b>	<b>2.8</b>	<b>1.3</b>	<b>2.6</b>	<b>.8</b>	<b>.2</b>	<b>-.3</b>
Core consumer goods	3.0	1.3	2.7	.5	.2	-.3
Capital equipment	2.6	1.4	2.5	1.4	.3	-.2
Intermediate materials	6.8	8.9	1.7	9.7	.7	.5
Ex. food and energy	4.6	7.9	3.8	11.1	.8	.7
Crude materials	7.9	6.6	-33.1	14.2	-1.7	3.1
Ex. food and energy	-2.7	34.4	39.6	43.3	1.7	1.3

## Measures of Expected Inflation

Survey Measures (Michigan SRC)



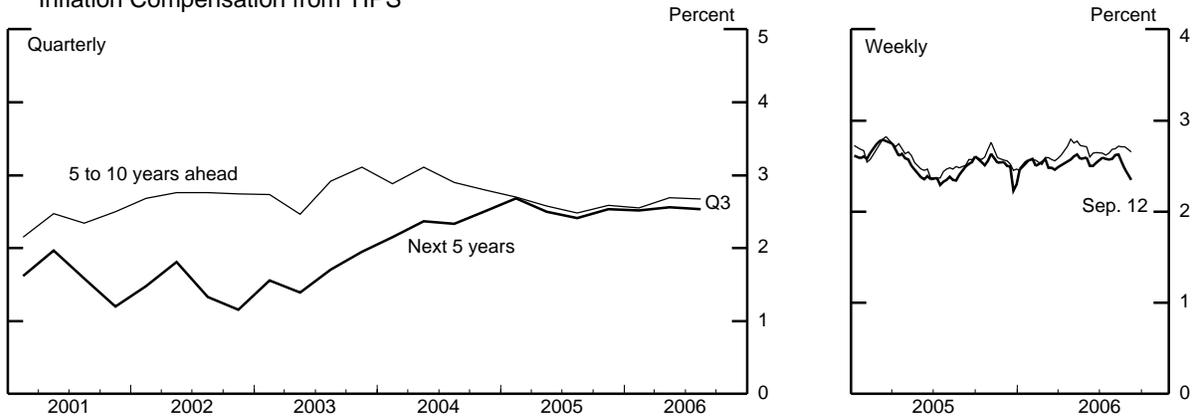
Inputs to Models of Inflation



\* For 1991 forward, the median projection for CPI inflation over the next 10 years from the Survey of Professional Forecasters; for 1981 to 1991, a related survey conducted by Richard Hoey; and for the period preceding 1981, a model-based estimate constructed by Board staff.

\*\* Derived from one of the reduced-form Phillips curves used by Board staff.

Inflation Compensation from TIPS



Note. Based on a comparison of an estimated TIPS yield curve to an estimated nominal off-the-run Treasury yield curve, with an adjustment for the indexation-lag effect since March 2004.

According to the preliminary reading for September from the Michigan Survey Research Center's (SRC) survey, both year-ahead and longer-term inflation expectations fell back from their elevated readings in August. The median of expected inflation over the next twelve months moved down from 3.8 percent to 3.1 percent. Expected inflation over the next five to ten years moved down from 3.2 percent to 2.9 percent, its average over the past ten years.

### **Personal Income and Consumer Spending**

Nominal sales in the retail control group of stores rose a modest 0.2 percent in August following a downward-revised gain of 0.6 percent in July. Across types of stores, changes in nominal spending were mixed in August. Some—such food and beverage stores and food services outlets—posted solid gains, while others—such as gasoline stations and furniture and home furnishing outlets—saw moderate declines. We now estimate that real outlays in the control category of personal consumption expenditures increased 0.2 percent in July and edged down 0.1 percent in August.

The preliminary report from the Michigan SRC showed that consumer sentiment rose in early September from an August level that was held down by a slump in the first half of the month. The increase in early September reflected a strengthening in the “expected conditions” component of the overall index that more than offset a weakening in the “current conditions” component of the overall index. Among those items not included in the overall sentiment index, consumers’ expectations about the change in unemployment over the next twelve months improved noticeably. In addition, the appraisal of buying conditions for cars edged up, while the appraisal of buying conditions for homes edged down.

### **Industrial Production**

Industrial production edged down 0.1 percent in August, and its manufacturing component moved sideways after having risen 0.4 percent in July. In August, the output of motor vehicles and parts increased 1.0 percent. Excluding motor vehicles and parts, manufacturing production edged down 0.1 percent; in the previous two months, gains averaged  $\frac{3}{4}$  percent. The output of mines dipped 0.3 percent in August, mainly because crude oil and natural gas extraction decreased.<sup>1</sup> The output of utilities also fell in August as electricity usage moderated following several months of above-average temperatures.

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<sup>1</sup> The decline in crude oil and natural gas extraction reflected, at least in part, the production cuts at Prudhoe Bay.

## Household Sector

### Retail and Food Services Sales

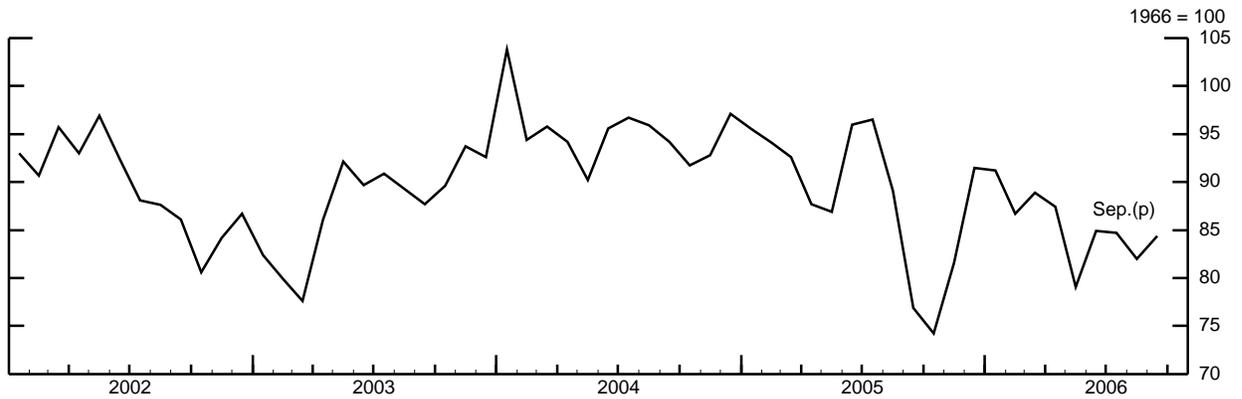
(Percent change from preceding period; seasonally adjusted current dollars)

Category	2005	2006				
	Q4	Q1	Q2	June	July	Aug.
	Annual rate			Monthly rate		
Total sales	2.2	13.4	3.3	-.5	1.4	.2
Retail control <sup>1</sup>	6.9	8.9	8.1	.2	.6	.2
Ex. sales at gasoline stations	7.8	9.4	4.9	.2	.5	.4
Memo:						
Real PCE control <sup>2</sup>	4.8	8.7	1.1	.0	.2	-.1

1. Total sales less outlays at building material and supply stores and automobile and other motor vehicle dealers.

2. Total goods spending excluding autos and trucks. Values for June, July, August, and Q2 are staff estimates.

### Michigan SRC Index of Consumer Sentiment



**Selected Components of Industrial Production**  
(Percent change from preceding comparable period)

Component	Proportion 2005 (percent)	2005 <sup>1</sup>	2006		2006		
			Q1	Q2	June	July	Aug.
			Annual rate		Monthly rate		
<b>Total</b>	<b>100.0</b>	<b>3.0</b>	<b>5.1</b>	<b>6.6</b>	<b>1.1</b>	<b>.4</b>	<b>-1</b>
Previous	100.0	3.0	5.1	6.2	.8	.4	...
Manufacturing	80.8	4.2	5.3	5.1	.9	.4	.0
Ex. motor veh. and parts	73.7	4.4	5.9	5.4	.7	.8	-1
Ex. high-tech industries	68.9	2.9	5.2	4.3	.6	.8	-2
Mining	9.8	-6.8	26.3	10.4	.9	.6	-3
Utilities	9.5	2.9	-14.3	15.9	2.6	1.0	-8
<i>Selected industries</i>							
High technology	4.8	25.7	15.2	20.9	2.4	1.3	.3
Computers	.8	12.0	10.6	16.3	1.4	1.2	1.4
Communications equipment	1.2	25.4	30.5	39.2	1.6	.1	-2.2
Semiconductors <sup>2</sup>	2.8	29.9	10.0	14.2	3.0	1.9	1.3
Motor vehicles and parts	7.1	2.3	-2	2.2	3.2	-4.9	1.0
<i>Market groups excluding energy and selected industries</i>							
Consumer goods	21.0	2.3	.9	2.7	.3	.7	-1
Durables	4.1	2.6	-2.5	-4	.1	.7	.3
Nondurables	16.9	2.2	1.7	3.5	.3	.8	-2
Business equipment	8.0	9.6	8.4	13.1	1.2	2.7	.3
Defense and space equipment	2.0	9.2	6.7	3.9	.7	.9	.3
Construction supplies	4.4	6.5	3.1	-1.0	.2	.7	-1
Business supplies	7.8	2.7	3.7	3.7	.6	.6	-6
Materials	24.4	.6	9.7	4.3	.4	.5	-2
Durables	13.7	3.6	9.0	6.2	.4	.8	-1
Nondurables	10.7	-3.1	10.6	1.8	.3	.1	-4

1. From fourth quarter of preceding year to fourth quarter of year shown.

2. Includes related electronic components.

... Not applicable.

**Capacity Utilization**  
(Percent of capacity)

Sector	1972- 2005 average	1994- 2005 high	2001- 02 low	2005	2006			
				Q4	Q1	Q2	July	Aug.
<b>Total industry</b>	<b>81.0</b>	<b>85.0</b>	<b>73.9</b>	<b>80.5</b>	<b>81.1</b>	<b>82.0</b>	<b>82.7</b>	<b>82.4</b>
Manufacturing	79.8	84.5	72.0	79.8	80.3	80.8	81.2	81.0
Ex. motor veh. and parts	79.9	84.3	71.8	79.8	80.5	81.0	81.7	81.4
Mining	87.3	89.0	85.6	82.7	87.9	90.4	91.9	91.7
Utilities	86.7	93.7	83.7	86.9	83.5	86.5	89.3	88.5
<i>Stage-of-process groups</i>								
Crude	86.4	89.4	83.2	81.3	85.8	88.2	89.3	89.1
Primary and semifinished	82.1	88.1	74.6	82.6	82.3	82.9	84.0	83.6
Finished	77.9	80.5	70.8	78.3	78.9	79.7	79.9	79.8

The production of high-technology products edged up just 0.3 percent in August following more rapid gains in the previous three months. Computer production continued at a sluggish pace, increasing 1.4 percent. The production of communications equipment appears to be moderating following large gains in the first half of the year: After little change in July, the output of communications equipment fell 2.2 percent last month. Semiconductor production also rose more slowly in August, as a decrease in the output of printed circuit boards and printed circuit assemblies subtracted from the gains among producers of semiconductor chips.

Coming on the heels of widespread strength, the rates of change in production for market groups excluding energy, motor vehicles and parts, and high-technology products fell back or decelerated in August. The output of durable consumer goods rose while the production of nondurable consumer goods edged down 0.2 percent. The gains in business equipment slowed, increasing 0.3 percent in August after July's upwardly revised rate of 2.7 percent while the output of defense and space equipment rose 0.3 percent. The output of materials slipped 0.2 percent in August, and the production of business supplies fell 0.6 percent. The output of construction supplies also edged down, as decreases in plastics, air conditioners, and several wood-related series offset increases in the output of construction steel, concrete products, paving and roofing materials, and electric lighting equipment.

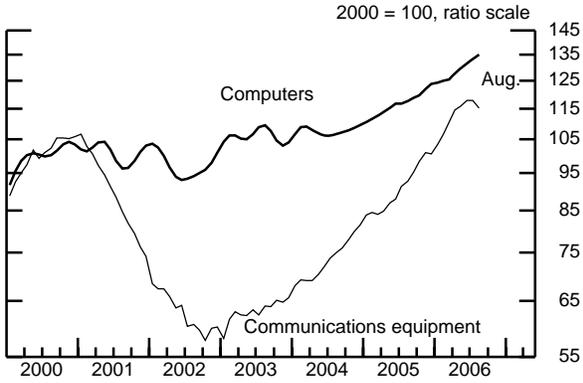
The factory operating rate edged down 0.2 percentage point in August, to 81.0 percent, but it is still 1.2 percentage points above its 1972-2005 average. Operating rates also fell in August for both mining and utilities. By stage of process, the rates at the crude stage of processing decreased for the first time this year; the rates for primary and semifinished processing and for finished processing also slipped.

### **Business Inventories**

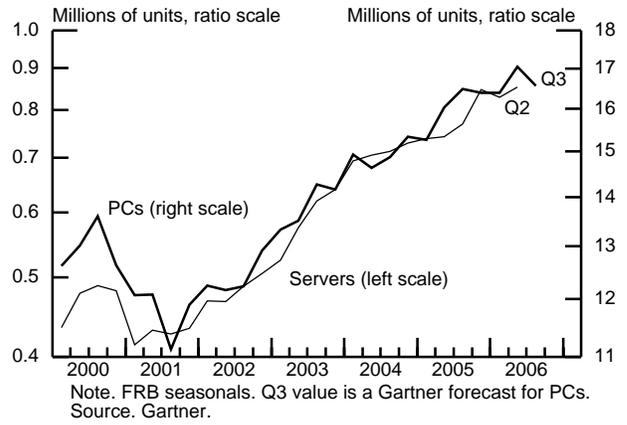
The book value of inventories in manufacturing and trade, excluding motor vehicles and parts, increased at an annual rate of \$81 billion in July after having risen \$110 billion in June. The inventory-sales ratio in this category ticked up to 1.19 months in July.

## Indicators of High-Tech Manufacturing Activity

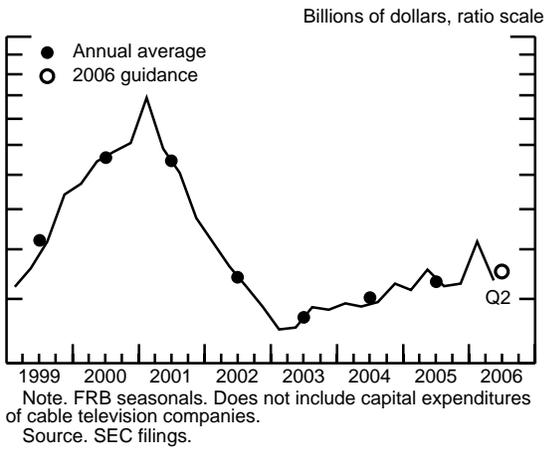
Communications Equipment and Computer IP



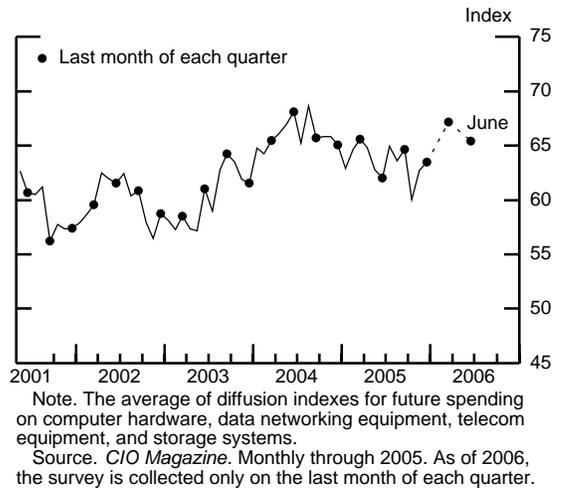
U.S. Personal Computer and Server Sales



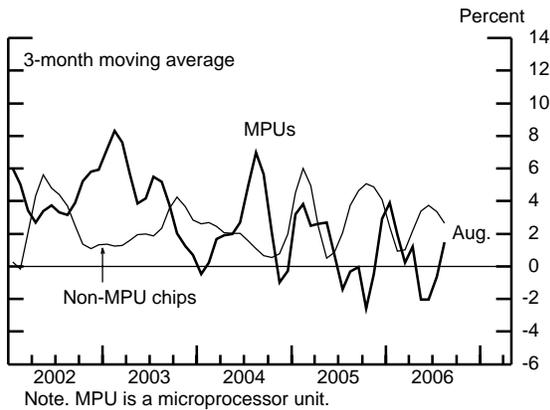
Capital Expenditures by Telecommunications Service Providers



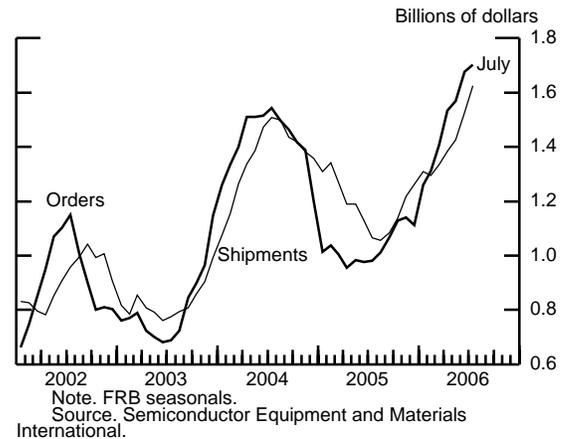
CIO Magazine IT Hardware Future Spending Diffusion Index



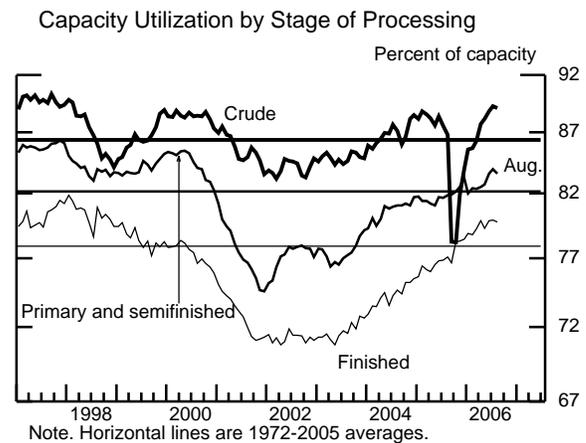
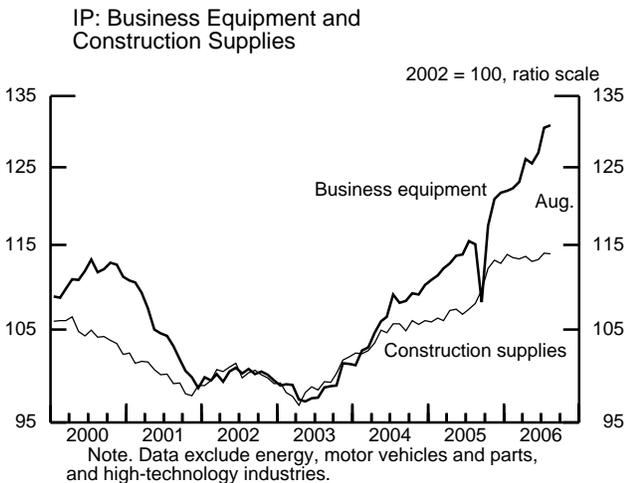
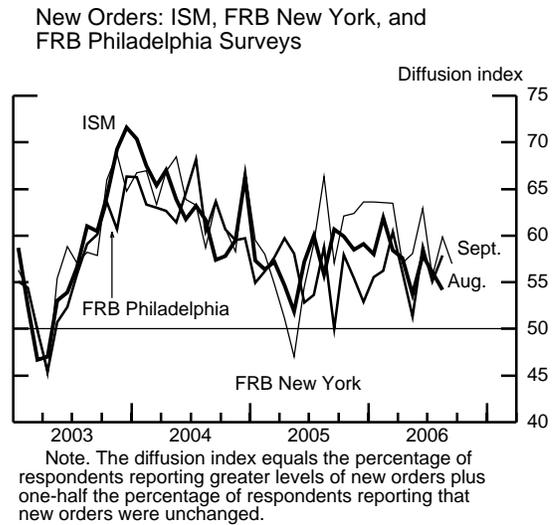
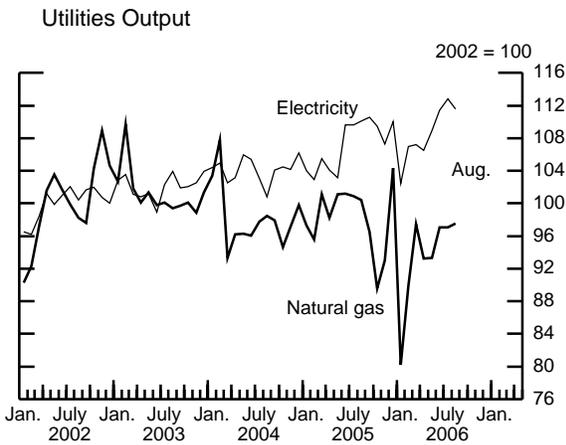
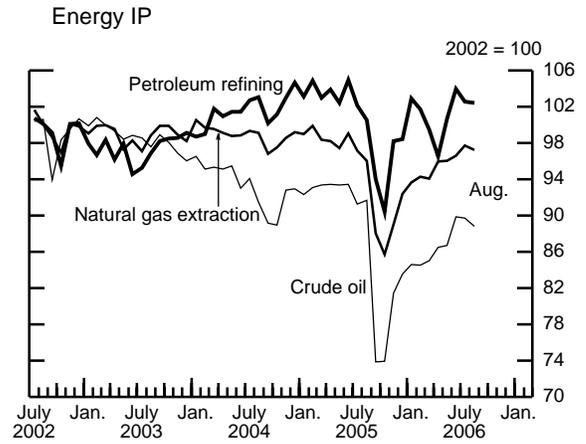
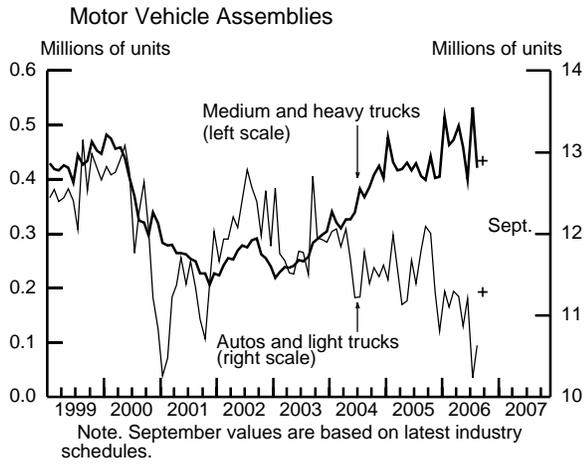
Rate of Change in Semiconductor Industrial Production



Bookings and Billings for Semiconductor Equipment



## Indicators of Industrial Activity



### Nonfarm Inventory Investment

(Billions of dollars; seasonally adjusted annual rate)

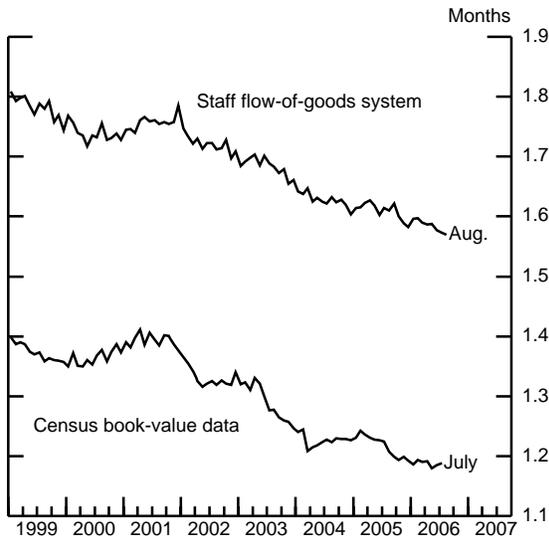
Measure and sector	2005	2006				
	Q4	Q1	Q2	May	June	July
<i>Real inventory investment (chained 2000 dollars)</i>						
<b>Total nonfarm business</b>	<b>38.6</b>	<b>36.8</b>	<b>56.1<sup>e</sup></b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>
Motor vehicles	23.4	8.5	3.2 <sup>e</sup>	n.a.	n.a.	n.a.
Nonfarm ex. motor vehicles	15.2	28.3	52.9 <sup>e</sup>	n.a.	n.a.	n.a.
<b>Manufacturing and trade ex. wholesale and retail motor vehicles and parts</b>						
<b>16.9</b>	<b>22.7</b>	<b>38.9<sup>e</sup></b>	<b>44.7<sup>e</sup></b>	<b>34.6<sup>e</sup></b>	<b>n.a.</b>	<b>n.a.</b>
Manufacturing	.5	7.6	12.9 <sup>e</sup>	3.6 <sup>e</sup>	10.8 <sup>e</sup>	n.a.
Wholesale trade ex. motor vehicles & parts	9.9	7.9	19.0 <sup>e</sup>	23.7 <sup>e</sup>	15.3 <sup>e</sup>	n.a.
Retail trade ex. motor vehicles & parts	6.6	7.2	7.0 <sup>e</sup>	17.4 <sup>e</sup>	8.6 <sup>e</sup>	n.a.
<i>Book-value inventory investment (current dollars)</i>						
<b>Manufacturing and trade ex. wholesale and retail motor vehicles and parts</b>	<b>56.2</b>	<b>53.3</b>	<b>109.1</b>	<b>116.2</b>	<b>110.2</b>	<b>80.5</b>
Manufacturing	23.3	23.5	48.3	39.7	52.6	36.4
Wholesale trade ex. motor vehicles & parts	20.7	17.9	43.2	48.6	38.9	33.4
Retail trade ex. motor vehicles & parts	12.2	12.0	17.5	27.9	18.7	10.7

<sup>e</sup> Staff estimates of real inventory investment based on revised book-value data.

n.a. Not available.

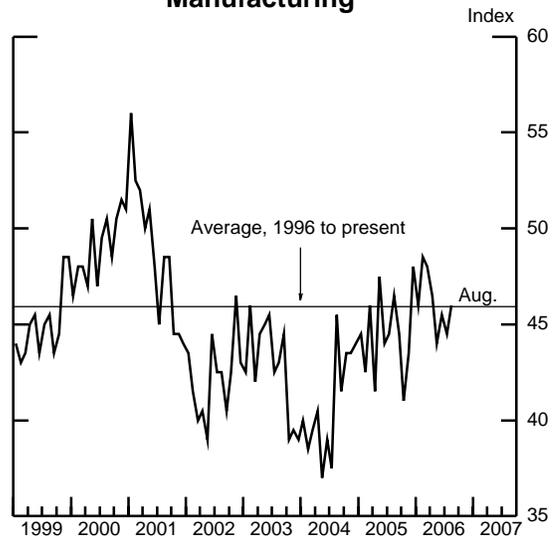
Source. For real inventory investment, BEA. For book-value data, Census Bureau.

**Inventory Ratios ex. Motor Vehicles**



Note. Flow-of-goods system covers total industry ex. motor vehicles and parts, and inventories are relative to consumption. Census data cover manufacturing and trade ex. motor vehicles and parts, and inventories are relative to sales.

**ISM Customer Inventories: Manufacturing**



Note. A number above 50 indicates inventories are "too high."

### Commercial Bank Credit

(Percent change, annual rate, except as noted; seasonally adjusted)

Type of credit	2004	2005	Q1 2006	Q2 2006	July 2006	Aug. 2006	Level Aug. 2006
Total <sup>2</sup>	8.9	10.5	10.8	12.9	12.0	5.4	7,782
<i>Loans</i> <sup>3</sup>							
Total	9.7	11.6	11.2	11.9	11.1	8.7	5,777
To businesses							
Commercial and industrial	1.2	13.2	14.7	17.5	17.5	29.3	1,146
Commercial real estate	11.7	17.1	16.1	14.6	14.5	9.0	1,389
To households							
Residential real estate	15.7	12.0	6.3	8.8	14.5	-6.9	1,726
Revolving home equity	43.8	13.3	2.8	-2.7	17.5	-10.4	447
Consumer	8.8	3.1	3.1	10.2	3.2	8.8	728
Originated <sup>4</sup>	6.0	.5	8.3	5.6	3.3	6.6	1,102
Other <sup>5</sup>	7.4	8.4	16.4	7.9	-3.5	13.4	788
<i>Securities</i>							
Adjusted <sup>2</sup>	6.6	7.6	9.6	15.6	14.5	-4.2	2,006
Reported	5.2	5.3	7.4	18.3	7.8	2.7	2,154
Treasury and agency	4.9	.0	8.4	8.0	10.9	7.0	1,218
Other <sup>6</sup>	5.7	13.3	6.1	32.2	3.7	-2.7	936

Note. Yearly annual rates are Q4 to Q4; quarterly and monthly annual rates use corresponding average levels. Data are adjusted to remove estimated effects of consolidation related to FIN 46 and for breaks caused by reclassifications.

1. Billions of dollars. Pro rata averages of weekly (Wednesday) levels.

2. Adjusted to remove effects of mark-to-market accounting rules (FIN 39 and FAS 115).

3. Excludes interbank loans.

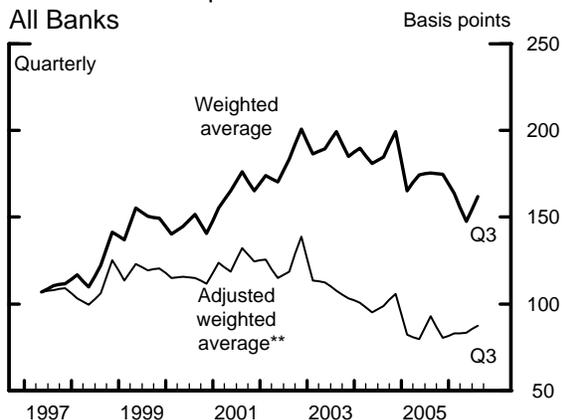
4. Includes an estimate of outstanding loans securitized by commercial banks.

5. Includes security loans and loans to farmers, state and local governments, and all others not elsewhere classified.

Also includes lease financing receivables.

6. Includes private mortgage-backed securities, securities of corporations, state and local governments, foreign governments, and any trading account assets that are not Treasury or agency securities, including revaluation gains on derivative contracts.

#### C&I Loan Rate Spreads\*

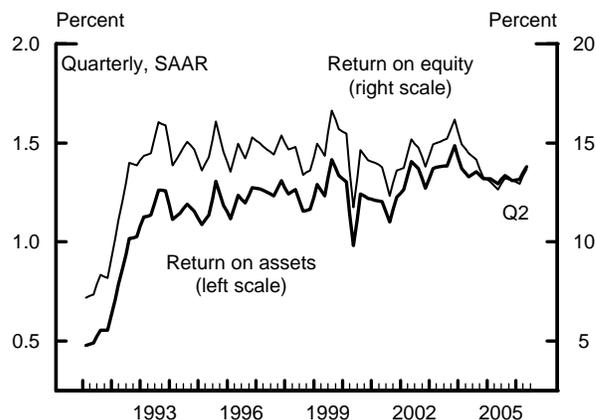


\* Spread over banks' estimated cost of funds.

\*\* Adjusted for changes in nonprice loan characteristics.

Source. Survey of Terms of Business Lending.

#### Bank Profitability



Source. Call Report.

III-T-1  
**Selected Financial Market Quotations**  
 (One-day quotes in percent except as noted)

Instrument	2004	2005	2006		Change to Sept. 14 from selected dates (percentage points)		
	June 28	Dec. 30	Aug. 7	Sept. 14	2004 June 28	2005 Dec. 30	2006 Aug. 7
<i>Short-term</i>							
FOMC intended federal funds rate	1.00	4.25	5.25	5.25	4.25	1.00	.00
Treasury bills <sup>1</sup>							
3-month	1.36	3.99	4.99	4.82	3.46	.83	-.17
6-month	1.74	4.22	5.00	4.92	3.18	.70	-.08
Commercial paper (A1/P1 rates) <sup>2</sup>							
1-month	1.28	4.23	5.29	5.24	3.96	1.01	-.05
3-month	1.45	4.37	5.32	5.26	3.81	.89	-.06
Large negotiable CDs <sup>1</sup>							
3-month	1.53	4.49	5.40	5.35	3.82	.86	-.05
6-month	1.82	4.65	5.46	5.39	3.57	.74	-.07
Eurodollar deposits <sup>3</sup>							
1-month	1.29	4.36	5.36	5.30	4.01	.94	-.06
3-month	1.51	4.52	5.43	5.37	3.86	.85	-.06
Bank prime rate	4.00	7.25	8.25	8.25	4.25	1.00	.00
<i>Intermediate- and long-term</i>							
U.S. Treasury <sup>4</sup>							
2-year	2.88	4.43	4.97	4.85	1.97	.42	-.12
5-year	3.97	4.35	4.83	4.72	.75	.37	-.11
10-year	4.90	4.47	4.97	4.87	-.03	.40	-.10
U.S. Treasury indexed notes							
5-year	1.56	2.03	2.23	2.37	.81	.34	.14
10-year	2.25	2.10	2.32	2.37	.12	.27	.05
Municipal general obligations (Bond Buyer) <sup>5</sup>	5.01	4.38	4.49	4.30	-.71	-.08	-.19
Private instruments							
10-year swap	5.21	4.92	5.47	5.29	.08	.37	-.18
10-year FNMA <sup>6</sup>	5.38	4.84	5.31	5.15	-.23	.31	-.16
10-year AA <sup>7</sup>	5.60	5.27	5.92	5.77	.17	.50	-.15
10-year BBB <sup>7</sup>	6.25	5.82	6.45	6.33	.08	.51	-.12
10-year high yield <sup>7</sup>	8.41	8.30	8.62	8.49	.08	.19	-.13
Home mortgages (FHLMC survey rate)							
30-year fixed	6.21	6.21	6.55	6.43	.22	.22	-.12
1-year adjustable	4.19	5.16	5.69	5.60	1.41	.44	-.09

Stock exchange index	Record high		2005	2006		Change to Sept. 14 from selected dates (percent)		
	Level	Date	Dec. 30	Aug. 7	Sept. 14	Record high	2005 Dec. 30	2006 Aug. 7
Dow Jones Industrial	11,723	1-14-00	10,718	11,219	11,527	-1.67	7.56	2.75
S&P 500 Composite	1,527	3-24-00	1,248	1,276	1,316	-13.83	5.45	3.18
Nasdaq	5,049	3-10-00	2,205	2,073	2,229	-55.85	1.06	7.54
Russell 2000	782	5-5-06	673	696	728	-6.94	8.08	4.53
Wilshire 5000	14,752	3-24-00	12,518	12,767	13,180	-1.65	5.29	3.24

1. Secondary market.
2. Financial commercial paper.
3. Bid rates for Eurodollar deposits collected around 9:30 a.m. eastern time.
4. Derived from a smoothed Treasury yield curve estimated using off-the-run securities.
5. Most recent Thursday quote.
6. Constant-maturity yields estimated from Fannie Mae domestic noncallable coupon securities.
7. Derived from smoothed corporate yield curves estimated using Merrill Lynch bond data.

NOTES:

June 28, 2004, is the day before the most recent policy tightening began.  
 August 7, 2006, is the day before the most recent FOMC announcement.

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## The International Economy

### Prices of Internationally Traded Goods

**Non-oil imports.** In August, import prices of non-oil goods and core goods rose 0.5 and 0.3 percent, respectively. These increases reflected higher prices for material-intensive goods, with a 13.6 percent increase in natural gas prices providing an additional boost to the price index for non-oil goods. After falling 1.0 percent in July, prices for non-fuel industrial supplies resumed the upward pace of earlier months, with an increase of 0.5 percent in August. This increase reflected higher prices for metals which offset lower prices for chemicals and building materials. Food prices were also up, increasing 2.5 percent. In comparison, prices for imported finished goods were little changed. Prices for imported computers rose 0.2 percent, whereas prices for semiconductors were flat.

The average level of core import prices in July and August was 3½ percent at an annual rate above the second-quarter average, as prices were higher in all major sub-categories. Prices for material-intensive goods were up 7¾ percent (a.r.), whereas prices for finished goods increased at a 2¼ percent (a.r.) pace.

**Oil.** The BLS price index of imported oil rose 2.3 percent in August. The spot price of West Texas Intermediate (WTI) crude oil averaged around \$73 per barrel in August and has averaged \$66.50 per barrel thus far in September. In early August, the spot price of WTI surged to \$77 per barrel following the disruption of supplies from Alaska's Prudhoe Bay. Since then, oil prices have fallen sharply. Market participants appear to have taken a more benign view of supply, reflecting the cease-fire between Israel and Hezbollah, a partial resumption of production from the Prudhoe Bay oil field, forecasts predicting fewer hurricanes this season, and a perception that punishment of Iran for its nuclear program is not imminent. The spot price of WTI closed at \$63.98 per barrel on September 13.

**Exports.** In August, prices of U.S. exports of total goods and core goods increased 0.4 and 0.7 percent, respectively. Prices for nonagricultural industrial supplies increased 1.5 percent in August, reflecting higher prices for chemicals, metals, and fuels. Agricultural export prices rose 1.0 percent. Within finished goods, prices for both capital goods (excluding computers and semiconductors) and consumer goods were up 0.2 percent in August. In contrast, prices of exported computers and semiconductors fell 1.6 and 2.0 percent, respectively.

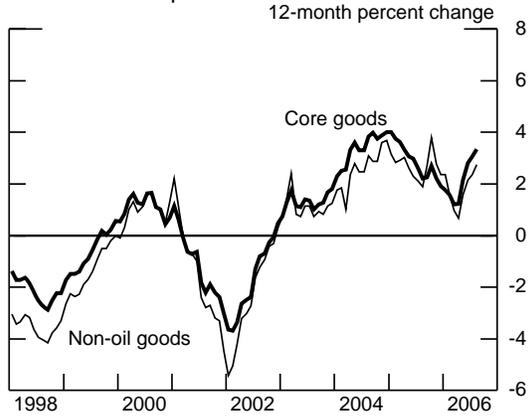
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The average level of core export prices in July and August was 7 percent at an annual rate above the second quarter average, as prices increased in all major sub-categories. Much of the increase can be attributed to the 14 percent increase in the prices of material-intensive goods, as prices of both agricultural products and nonagricultural industrial supplies rose sharply.

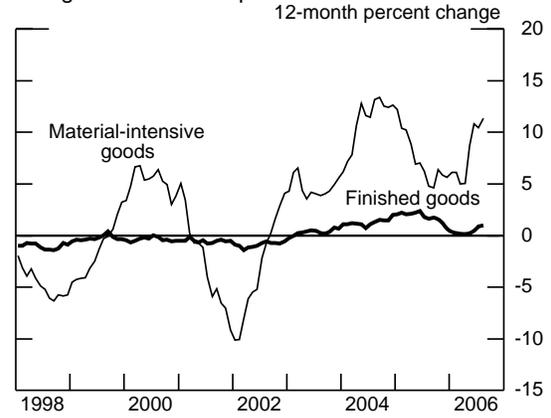
The import and export price data for August came in quite close to our expectations. As a result, we have not revised our outlook for trade prices from the September Greenbook.

## Prices of U.S. Imports and Exports

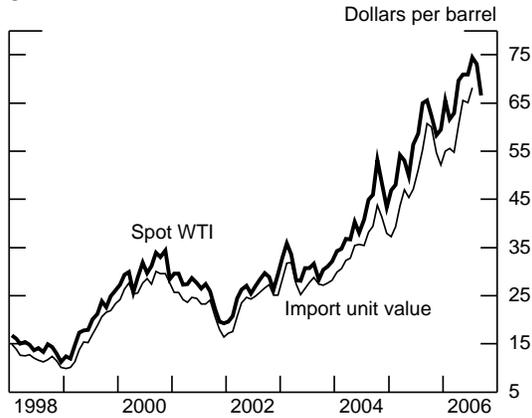
Merchandise Imports



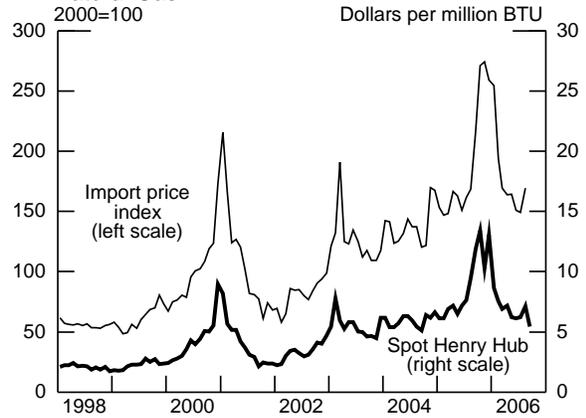
Categories of Core Imports



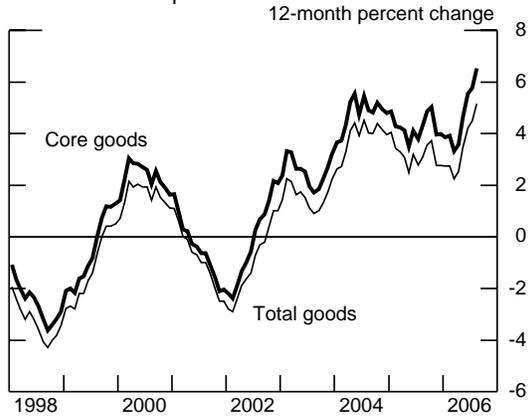
Oil



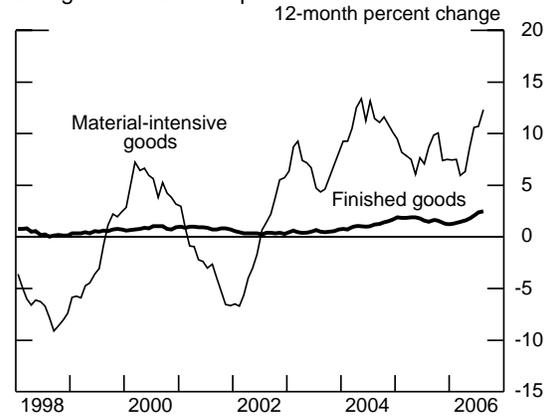
Natural Gas



Merchandise Exports



Categories of Core Exports



**Prices of U.S. Imports and Exports**  
(Percentage change from previous period)

	Annual rate			Monthly rate		
	2006			2006		
	Q1	Q2	Q3 <sup>e</sup>	June	July	Aug.
	----- BLS prices -----					
<b>Merchandise imports</b>	.1	12.8	8.7	.1	1.0	.8
Oil	6.8	79.2	34.3	-1.1	5.1	2.3
Non-oil	-1.2	1.0	2.9	.4	.0	.5
Core goods <sup>1</sup>	2.2	3.9	3.4	.6	.0	.3
Finished goods	.7	.8	2.2	.2	.3	.0
Cap. goods ex. comp. & semi.	1.7	2.5	2.8	.6	.2	.1
Automotive products	-8	1.0	1.4	.2	.2	.0
Consumer goods	.8	-4	2.2	.1	.4	.0
Material-intensive goods	9.6	14.9	7.8	1.8	-.7	1.0
Foods, feeds, beverages	5.5	-.7	7.0	-.1	.0	2.5
Industrial supplies ex. fuels	11.8	20.7	7.6	2.4	-1.0	.5
Computers	-6.9	-7.6	-4.6	-.6	-.6	.2
Semiconductors	2.4	-.3	4.3	.4	.9	.0
Natural gas	-65.2	-63.8	-1.0	-8.2	-1.1	13.6
<b>Merchandise exports</b>	2.9	6.7	5.4	.7	.4	.4
Core goods <sup>2</sup>	3.6	8.0	7.0	.9	.5	.7
Finished goods	2.6	2.8	2.2	.2	.3	.1
Cap. goods ex. comp. & semi.	4.0	3.0	2.0	.1	.3	.2
Automotive products	1.0	1.9	1.4	.2	.2	.0
Consumer goods	1.4	3.0	3.1	.3	.3	.2
Material-intensive goods	5.2	15.7	14.0	1.9	.8	1.4
Agricultural products	-1.4	2.0	18.2	2.5	1.9	1.0
Industrial supplies ex. ag.	7.2	20.2	13.1	1.7	.5	1.5
Computers	1.2	-3.7	-7.2	-.8	-.6	-1.6
Semiconductors	-7.9	-5.9	-10.1	-.4	-1.2	-2.0
	----- NIPA prices -----					
<b>Chain price index</b>						
Imports of goods & services	-.7	9.6	--	--	--	--
Non-oil merchandise	-1.8	.7	--	--	--	--
Core goods <sup>1</sup>	1.6	3.8	--	--	--	--
Exports of goods & services	2.3	6.1	--	--	--	--
Total merchandise	2.8	6.0	--	--	--	--
Core goods <sup>2</sup>	3.7	6.8	--	--	--	--

1. Excludes computers, semiconductors, and natural gas.

2. Excludes computers and semiconductors.

e/ Average of two months.

、 n.a. Not available. ... Not applicable.