REBOUNDING US IMPORT PRICES TO ADD TO 2018 DOMESTIC INFLATIONARY PRESSURES

*U.S. import prices increased 2% m/m and 3.6% yr/yr in January, driven by both a 22% yr/yr gain in petroleum import prices and an acceleration in nonpetroleum imports prices, which rose 0.5% m/m and 1.9% yr/yr, the largest gain since January 2012 (see Chart 1)*

*The persistent U.S. dollar depreciation and stronger domestic demand following the 2014-2016 industrial slump are pushing up prices of nonpetroleum imports, which will add modestly to domestic price inflation with some lag*

*Export prices increased by a strong 0.8% m/m, despite the U.S. dollar weakness, and non-food/ fuels exports rose a strong 0.5% m/m, with improving global growth also increasing demand for U.S. manufactured goods*

Prices of imports fell during 2014-2016, reflecting a combination of sharp declines of oil and energy prices and falling prices of non-petroleum prices that reflected softer U.S. domestic demand growth and the strengthening U.S. dollar. This price trend in imports is now reversing, with higher energy prices, strengthening domestic demand, and a weaker U.S. dollar combining to boost import prices. This trend will add to overall U.S. inflation pressures in 2018.

Prices of non-petroleum imports reflect U.S. product demand and the U.S. dollar. U.S. domestic demand — consumption and business investment spending — have picked up decidedly: final sales to domestic purchasers rose 4.8% in the year ending Q4 2017, up from 3.6% in the prior year. The nominal broad-trade weighted U.S. dollar has fallen 8% from its peak at year-end 2016, but as global trade contracts are usually settled months in advance, exchange rate movements feed through to actual contract prices with a lag. The year-long depreciation of the weak U.S. dollar is just showing up in import prices.

Based on momentum in domestic demand and continued softness in the U.S. dollar, upward pressure on prices of non-fuel imports is expected through 2018.

The acceleration in import prices has been concentrated in energy and capital goods, reflecting higher oil prices and the decided pickup in domestic capital spending. Import price inflation of capital goods tends to lead the producer price index of capital equipment by about six months. Combined with stronger product demand, this suggests that domestic producers will continue to increase their selling prices (Chart 2).

Automotive import prices spiked 0.6% in January, but that followed a year of slight declines (Chart 3). Prices of imports of consumer goods excluding autos remain subdued, reflecting familiar factors that have constrained prices of many consumer goods in the U.S. (see Chart 4). Increases in broader domestic consumer inflation are likely to be driven by domestic services.

The price increases of U.S. exports despite the weak U.S. dollar are a result of strengthening global economies. In particular, prices of exported capital goods and consumer goods correspond to the marked pick-up in global demand (Chart 5).
Chart 1: Nonpetroleum Import Prices

Source: Monthly data. Source: Bureau of Labor Statistics and Haver Analytics

Chart 2: PPI and Import Prices of Capital Goods

Source: Monthly data. Source: Bureau of Labor Statistics and Haver Analytics
Chart 3: Import Prices of Motor Vehicles and Parts

Source: Monthly data, Bureau of Labor Statistics and Haver Analytics

Chart 4: Import Prices of Consumer Goods ex Autos and CPI for Commodities Less Food and Energy

Source: Monthly data, Bureau of Labor Statistics and Haver Analytics
Chart 5: Export Prices of Capital Goods and Exports of Capital Goods Ex Autos

Exports: Capital Goods except Automotive
% Change - Year to Year SA, Mil. Chn. 2009$  
Export Price Index: Capital Goods
% Change - Year to Year NSA, 2000=100

Source: Monthly data, Census Bureau, Bureau of Labor Statistics and Haver Analytics
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