

## Price highlights, 2006: energy goods retreat, moderating producer prices

*Prices for energy goods turned downward in 2006—their first annual decline since 2001—resulting in smaller overall increases in the indexes for finished goods and intermediate goods and in a downturn in the crude goods index*

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The Producer Price Index (PPI) for Finished Goods advanced 1.1 percent in 2006, after rising 5.4 percent in 2005 and 4.2 percent in 2004. Finished goods are commodities that are ready for sale to final-demand users, either as durable or nondurable goods for consumers or as capital equipment for business firms. The index for intermediate materials, supplies, and components, reflecting the prices of goods produced at an earlier stage of processing, increased 2.8 percent in 2006, after climbing 8.6 percent in 2005 and 9.2 percent in 2004. Intermediate goods consist of material and component inputs to manufacturing and construction, as well as supplies for all types of businesses. The index for crude materials for further processing, reflecting the prices of goods produced at a still earlier stage of processing, moved down 4.7 percent in 2006, after climbing 21.1 percent in 2005 and 17.4 percent in 2004. Crude materials are unprocessed goods or raw materials. The smaller advances in 2006 for the indexes for finished goods and intermediate goods were the lowest over-the-year changes since 2001, while the decrease in prices of crude goods was the first in 5 years. (See table 1.)

Prices for energy goods turned downward in 2006, leading the deceleration for finished and intermediate goods, as well as the downturn for crude materials. The indexes

for wellhead natural gas and utility natural gas fell in 2006, after having risen a year earlier, while prices for crude petroleum, coal, utility electric power, and refined petroleum products increased less than they did in 2005. Within finished goods, the index for finished energy goods moved down 2.0 percent in 2006, following a 23.9-percent advance a year earlier. Similarly, prices for intermediate energy goods fell 3.3 percent, after climbing 26.2 percent in 2005. The index for crude energy materials dropped 15.7 percent, compared with a 42.2-percent jump a year earlier, fully accounting for the 2006 downturn in the prices of crude goods.

In contrast, the index for finished goods other than foods and energy rose more in 2006 than in 2005—2.0 percent and 1.4 percent, respectively. The index for intermediate goods other than foods and energy moved up at nearly the same rate in 2006 as it had a year earlier: 4.5 percent, compared with 4.8 percent. At the same time, prices for crude nonfood materials less energy increased 17.0 percent, after rising 5.2 percent in 2005.<sup>1</sup> As regards foods at different stages of processing, the index for finished consumer foods moved up 1.7 percent in 2006, the same rate it had increased the previous year, while prices for intermediate foods and feeds and for crude foodstuffs and feedstuffs advanced more in 2006 than in 2005.

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**Table 1. Annual percent changes in producer price indexes for selected stages of processing, 2001–06**

Index	2001	2002	2003	2004	2005	2006
Finished goods.....	-1.6	1.2	4.0	4.2	5.4	1.1
Finished consumer foods.....	1.8	-6	7.7	3.1	1.7	1.7
Finished energy goods.....	-17.1	12.3	11.4	13.4	23.9	-2.0
Finished goods less foods and energy.....	.9	-5	1.0	2.3	1.4	2.0
Finished consumer goods, excluding foods and energy.....	1.5	-5	1.1	2.2	1.6	1.8
Capital equipment.....	.0	-6	.8	2.4	1.2	2.3
Intermediate materials, supplies, and components.....	-4.0	3.2	3.9	9.2	8.6	2.8
Intermediate foods and feeds.....	.3	4.2	12.9	-2.3	2.4	4.7
Intermediate energy goods.....	-16.9	12.0	10.9	15.8	26.2	-3.3
Intermediate materials less foods and energy.....	-1.6	1.5	2.1	8.3	4.8	4.5
Materials for nondurable manufacturing.....	-5.5	4.2	4.9	13.7	8.9	1.2
Materials for durable manufacturing.....	-4.0	3.1	4.0	18.3	5.9	12.5
Materials and components for construction.....	.0	.8	3.0	10.1	6.1	4.3
Crude materials for further processing.....	-32.5	24.7	19.5	17.4	21.1	-4.7
Foodstuffs and feedstuffs.....	-7.6	4.5	24.1	-2.6	1.6	2.8
Crude energy materials.....	-52.9	61.5	14.4	35.9	42.2	-15.7
Crude nonfood materials less energy.....	-9.9	12.6	21.6	20.5	5.2	17.0
Special groupings:						
Finished goods less energy.....	1.2	-5	2.7	2.5	1.5	1.9
Intermediate materials less energy.....	-1.5	1.6	2.6	7.8	4.6	4.5
Crude materials less energy.....	-8.3	7.1	23.3	5.2	3.0	8.3

## Energy goods

The indexes for energy goods at all three stages of processing declined in 2006, after having risen a year earlier. The index for finished energy goods decreased 2.0 percent, after surging 23.9 percent in 2005. Among finished energy goods, residential natural gas and liquefied petroleum gas saw their prices turn downward, following advances the previous year. The index for intermediate energy goods declined 3.3 percent, after having advanced 26.2 percent a year earlier. Within intermediate energy goods, prices for industrial natural gas, commercial natural gas, residual fuel, and natural gas to electric utilities turned downward, after rising in 2005. The index for crude energy materials dropped 15.7 percent in 2006, compared with a 42.2-percent jump in 2005. The index for wellhead natural gas turned downward, after having increased during the previous year, while prices for crude petroleum and coal rose less than they had a year earlier. (See table 2.)

*Natural-gas products.* From December 2005 to December 2006, prices for wellhead natural gas dropped 26.2 percent, after having jumped 43.7 percent the previous year. Prices for utility natural gas—residential, commercial, and industrial, and natural gas to electric utilities—also turned

downward significantly, as lower prices for wellhead natural gas were passed through to buyers. Although wellhead natural-gas prices have tended to be more volatile than utility natural-gas prices, the two are closely related. For the 12 months ended December 2006, the indexes for natural gas to electric utilities, commercial natural gas, industrial natural gas, and residential natural gas decreased 16.1 percent, 13.6 percent, 13.2 percent, and 11.6 percent, respectively.

Prices for natural gas surged during the autumn of 2005, after Hurricanes Katrina and Rita caused severe damage to offshore drilling platforms, natural-gas-processing plants, and pipelines along the Gulf Coast.<sup>2</sup> Natural-gas production began to recover in November 2005, pushing prices lower. Price declines continued through June 2006 as improving production and mild winter weather led to healthy storage levels. Consequently, prices for all types of utility natural gas also decreased during the first half of 2006.

A heat wave in mid-July led to higher demand for natural gas, because peak electric power demand is often covered by operating natural-gas-fired generators. The resulting fall in inventories, combined with fears of another destructive hurricane season, contributed to natural-gas price increases in July and August. The wellhead natural-gas index declined in September and October as

**Table 2. Annual percent changes in producer price indexes for selected energy goods, 2002–06**

Index	2002	2003	2004	2005	2006
Finished energy goods.....	12.3	11.4	13.4	23.9	-2.0
Residential natural gas.....	9.3	19.9	15.9	28.3	-11.6
Gasoline.....	38.7	14.9	27.4	41.5	1.8
Home heating oil.....	43.1	13.9	42.0	41.8	5.2
Liquefied petroleum gas.....	95.2	21.0	28.5	44.3	-15.1
Residential electric power.....	-1.0	4.9	2.3	6.8	2.3
Intermediate energy goods.....	12.0	10.9	15.8	26.2	-3.3
Industrial natural gas.....	12.2	20.3	20.1	31.5	-13.2
Commercial natural gas.....	11.1	19.9	17.5	30.3	-13.6
Diesel fuel.....	54.4	13.0	37.9	46.7	2.3
Jet fuel.....	38.6	10.2	45.5	41.3	6.6
Industrial electric power.....	2.0	2.4	2.3	10.4	4.0
Commercial electric power.....	-1.9	2.7	3.1	6.6	3.4
Crude energy goods.....	61.5	14.4	35.9	42.2	-15.7
Natural gas.....	89.1	17.2	44.3	43.7	-26.2
Crude petroleum.....	60.6	14.3	30.5	49.6	.1
Coal.....	1.0	2.1	10.0	9.7	5.5

hurricane fears subsided. The situation reversed again in November, with the wellhead natural-gas index posting a record 65.9-percent increase, followed by a 4.8-percent advance in December. Commodity market speculation was a major contributor to volatility in the natural-gas market throughout the year.<sup>3</sup> Prices for all types of utility natural gas showed movements similar to those of wellhead natural gas in the second half of 2006.

*Petroleum products.* The index for crude petroleum inched up 0.1 percent in 2006, after surging 49.6 percent in 2005. The first part of the year saw higher prices for crude oil, with spikes of 11.8 percent in April and 7.9 percent in July. On April 21, the light, sweet crude-oil contract on the New York Mercantile Exchange closed at a price of \$75.17 per barrel. This increase was the result of strong demand expectations as consumers headed into the driving season and also of geopolitical concerns threatening production and supply. Price declines began in mid-August and continued through November as a result of a mild hurricane season and a lowering of the International Energy Agency's oil demand forecast. The Organization of Petroleum Exporting Countries' decision on December 14 to cut production by 500,000 barrels per day—the first production cutback since 2004—led to a 5.4-percent increase in the December index.

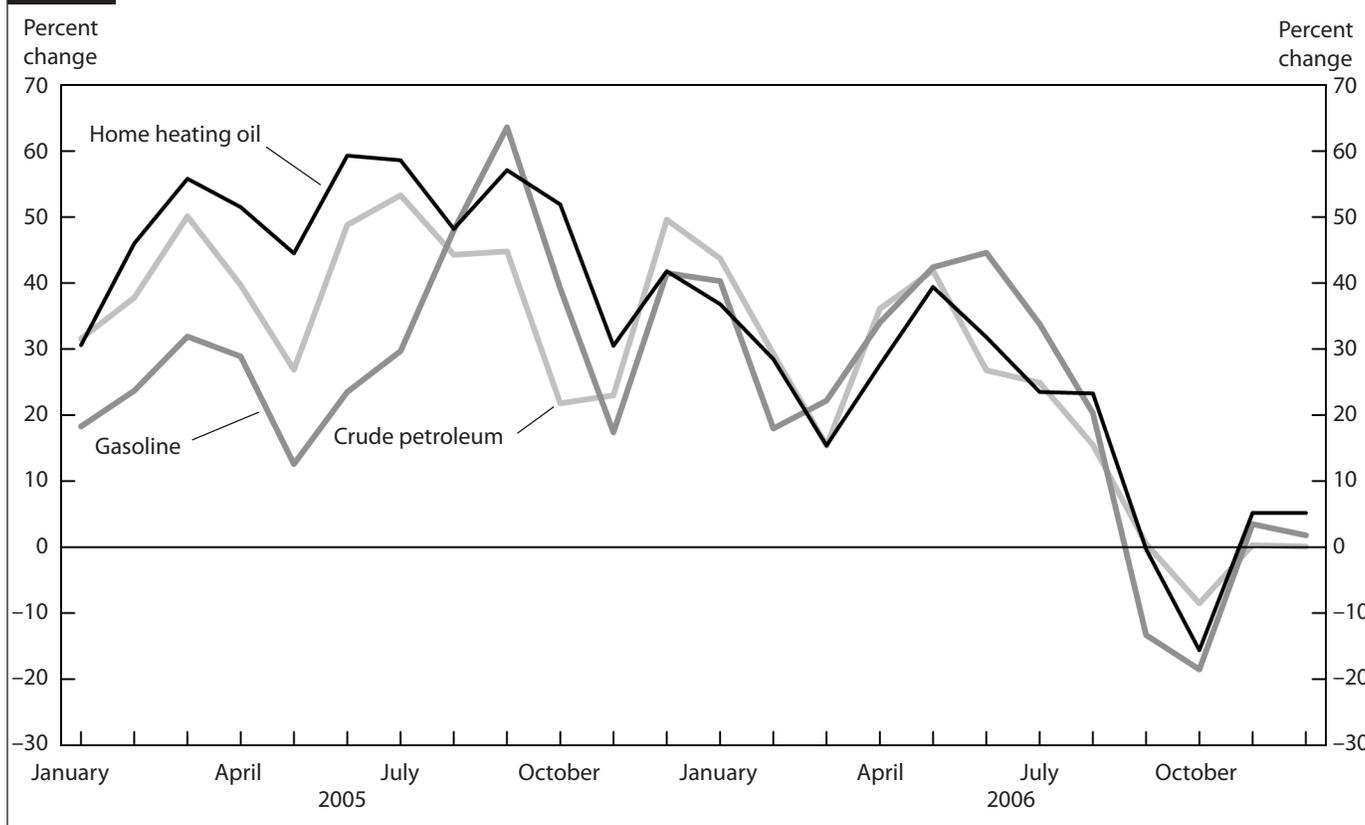
The substantial deceleration in prices for crude petroleum was passed through to refined petroleum products:

prices for gasoline, home heating oil, diesel fuel, and jet fuel rose at much slower rates than they had in 2005. (See chart 1.) While prices for gasoline and other distillates typically followed crude-oil prices throughout the year, regulatory changes also affected prices. The Energy Policy Act of 2005 required the removal of methyl tertiary-butyl ether from reformulated gasoline as of May 5, 2006.<sup>4</sup> Diesel refiners had to comply with the Environmental Protection Agency's ultralow-sulfur diesel requirement that at least 80 percent of on-highway diesel fuel sold at the retail level have no more than 15 parts per million (ppm) sulfur content by June 1, 2006—a much lower allowable sulfur content than the previous low-sulfur diesel standard of 500 ppm.<sup>5</sup>

Price increases for gasoline slowed to 1.8 percent in 2006, after surging 41.5 percent in 2005. Gasoline prices spiked 16.2 percent and 15.5 percent in March and April, respectively, amid concern over production and distribution issues due to the changeover from methyl tertiary-butyl ether to ethanol in reformulated gasoline sold mostly on the East Coast and in Texas. However, the transition went smoothly, and prices remained stable throughout the summer driving season. The switch to the cheaper winter blend, healthy stock levels, and declining crude-oil prices put downward pressure on gasoline prices, causing them to drop 18.7 percent in September.

The diesel fuel index advanced 2.3 percent, after surging 46.7 percent in 2005. Although prices for diesel fuel

**Chart 1. Twelve-month percent changes in prices of petroleum products, by month, January 2005–December 2006**



fell in the first 2 months of 2006 as a result of decreased demand for distillate due to warm winter weather, they began to increase in March and peaked in June amid increased demand and lower production rates, as well as the runup to the ultralow-sulfur diesel requirement deadline. Although refinery modifications to enable production were on track, there was still concern over distribution, mainly from pipeline contamination. After the deadline passed with no major problems, diesel fuel prices began to decline as production and stock levels of ultralow-sulfur diesel increased. The diesel fuel index decreased 19.5 percent in September when crude-oil prices fell significantly.

The index for home heating oil rose 5.2 percent in 2006, compared with a 41.8-percent jump in 2005. Prices fell early in the year due to decreased demand as a result of mild winter weather. Home heating oil prices increased in the spring months as refiners diverted inputs to raise the production of ultralow-sulfur diesel in preparation for the regulatory deadline. As demand for the diesel was met, normal heating oil production resumed. The increased supplies and mild weather exerted downward pressure on home heating oil prices for the remainder of the year.

Falling crude-oil prices also contributed to a slower rate of increase for jet fuel prices, which advanced 6.6 percent in 2006, after rising 41.3 percent in 2005. This moderate increase was the result of reduced production, high home heating oil futures prices (which serve as a proxy for jet fuel), and increased demand.

*Liquefied petroleum gas.* The index for liquefied petroleum gas dropped 15.1 percent, following a 44.3-percent jump the previous year. A large decrease occurred in February, when natural-gas prices dropped 21.3 percent, and in September, when the crude-petroleum index fell 13.3 percent. Liquefied petroleum gases are derived from either natural gas or crude oil. In 2006, natural-gas prices declined 26.2 percent and crude-petroleum prices edged up 0.1 percent.

*Electric power.* The electric power index rose 3.2 percent in 2006, compared with a 7.6-percent increase in 2005. Prices for residential electric power moved up 2.3 percent, after having risen 6.8 percent the previous year. Prices for commercial electric power rose 3.4 percent, following a 6.6-percent increase in 2005, and the industrial electric

power index advanced 4.0 percent, compared with a 10.4-percent increase a year earlier.

Much of the increase in the electric power index was the result of rising fuel costs: coal prices increased 5.5 percent in 2006, and coal accounts for 49.7 percent of electric power generation.<sup>6</sup> Also, the expiration of rate caps in several regions allowed utilities to raise rates.

### Finished goods other than foods and energy

The PPI for finished goods other than foods and energy moved up 2.0 percent in 2006, following a 1.4-percent rise a year earlier. Prices for capital equipment advanced 2.3 percent, after increasing 1.2 percent in 2005, while the index for finished consumer goods other than foods and energy climbed at a slightly faster rate than it had in the preceding year: 1.8 percent and 1.6 percent, respectively.<sup>7</sup> Prices for light motor trucks turned upward in 2006, and passenger car prices fell less than they had in 2005, accounting for most of the acceleration in the finished core index. (See table 3.)

Within finished core, the capital equipment index also was affected by prices for communication and related equipment and by prices for x-ray and electromedical equipment, both of

which declined less in 2006 than they had the previous year. Prices for civilian aircraft, transformers and power regulators, and metal-cutting machine tools advanced at quicker rates in 2006 than they had a year earlier. Conversely, prices for heavy motor trucks, pumps and compressors, construction machinery and equipment, and commercial furniture moved up less than they had in 2005.

Among finished consumer goods other than foods and energy, the index for men's and boys' apparel increased in 2006, following a decrease a year earlier. Prices for soaps and synthetic detergents, sporting and athletic goods, book publishing, and pet food rose more than they had in 2005. By contrast, the indexes for cigarettes, alcoholic beverages, pharmaceutical preparations, and household furniture advanced at slower rates in 2006 than they had the preceding year.

*Motor vehicles and equipment.* The PPI for light motor trucks rose 1.5 percent in 2006, after having fallen 5.9 percent a year earlier, while passenger car prices edged down 0.3 percent, following a larger, 3.4-percent decline in 2005. The upturn in light truck<sup>8</sup> prices occurred despite a decline in U.S. retail sales of North American production.<sup>9</sup> U.S. retail sales totaled 7.377 million units in 2006,

**Table 3. Annual percent changes in producer price indexes for selected finished goods other than foods and energy, 2002–06**

Index	2002	2003	2004	2005	2006
Finished goods other than foods and energy.....	-0.5	1.0	2.3	1.4	2.0
Capital equipment.....	-6	.8	2.4	1.2	2.3
Construction machinery and equipment.....	1.9	1.3	6.0	4.9	3.6
Metal-cutting machine tools.....	-2.1	.1	1.6	1.7	5.1
Pumps and compressors.....	1.3	1.1	4.6	6.7	3.8
Transformers and power regulators.....	-9	-2	8.2	10.1	16.5
Communication and related equipment.....	-2.6	-9	-2.1	-7	-2
X-ray and electromedical equipment.....	-2	-7	-3.4	-1.6	-4
Commercial furniture.....	.7	.7	3.8	3.4	2.3
Light motor trucks.....	-3.6	2.3	1.0	-5.9	1.5
Heavy motor trucks.....	4.3	-1.9	3.4	5.3	4.7
Civilian aircraft.....	2.1	6.1	7.1	3.9	5.3
Finished consumer goods other than foods and energy.	-5	1.1	2.2	1.6	1.8
Alcoholic beverages.....	1.1	2.0	.6	4.7	.9
Pet food.....	-6	.4	7.3	1.0	3.3
Men's and boys' apparel.....	—	—	.4	-2.8	1.1
Pharmaceutical preparations.....	3.9	4.7	4.4	6.0	3.6
Soaps and synthetic detergents.....	-4	1.5	1.1	1.6	6.6
Book publishing.....	3.2	4.0	4.6	3.7	4.6
Household furniture.....	1.4	.3	3.5	3.7	2.1
Passenger cars.....	-2.6	2.0	1.7	-3.4	-3
Sporting and athletic goods.....	-1.0	-2.2	1.3	.5	2.1
Cigarettes.....	-5.8	-8	1.1	4.8	.8

NOTE: Dash indicates data not available.

compared with 8.065 million units in 2005, a drop of 8.5 percent.<sup>10</sup> By contrast, U.S. retail sales of light trucks produced outside North America jumped 10.8 percent, to 1.347 million units sold. For the passenger car segment, much the same occurred: U.S. retail sales of North American production declined 0.8 percent in 2006, to 5.436 million units, and U.S. retail sales of passenger cars produced outside North America increased 7.2 percent, to 2.345 million units. In addition, the average inventory ratio for passenger cars produced in North America grew slightly in 2006, compared with 2005.<sup>11</sup> Within the heavy motor truck segment (vehicles over 14,000 pounds gross vehicular weight), the PPI posted a 4.7-percent gain in 2006, after rising 5.3 percent in 2005. U.S. sales of heavy motor trucks increased 9.6 percent in 2006, to 544.4 thousand units; however, in 2004 and 2005, sales had surged 31.4 and 15.0 percent, respectively.<sup>12</sup>

*Civilian aircraft.* The PPI for civilian aircraft climbed 5.3 percent in 2006, following a 3.9-percent advance in 2005. From December 2002 to December 2006, civilian aircraft prices jumped 24.4 percent. In terms of the industry's material and supply costs that are important in aircraft production, prices for steel mill products increased 11.6 percent in 2006, after having fallen 3.8 percent the previ-

ous year. Prices for nonferrous metals, such as mill shapes made from aluminum, copper, or brass—as well as prices for nonferrous wire and cable—accelerated in 2006, following already strong rates of increase in 2005. (See table 4.) In 2006, civilian aircraft shipments totaled 4,548 units, an 11.3-percent increase over the 2005 figure of 4,087 civilian aircraft shipped. Within the civilian aircraft category, general aviation shipments advanced 14.7 percent, helicopter shipments declined 7.1 percent, and transport aircraft shipments surged 37.9 percent.<sup>13</sup>

*Cigarettes and alcoholic beverages.* The index for cigarettes inched up 0.8 percent in 2006, following a 4.8-percent rise the preceding year. The slower rate of increase may be linked, at least in part, to prices for stemmed and redried tobacco, which fell 8.8 percent, following almost no change in 2005. According to the U.S. Department of Agriculture, tobacco acreage planted rose 12.1 percent in 2006, crop yield per acre increased 1.1 percent, and total production moved up 13.4 percent, compared with 2005.<sup>14</sup> In addition, total U.S. cigarette consumption went down 1.3 percent in 2006.<sup>15</sup> Prices for alcoholic beverages edged up 0.9 percent, after rising 4.7 percent in 2005. The slower rate of increase can be traced to the index for malt beverages, which declined 0.4 percent, following a 6.0-percent

**Table 4. Annual percent changes in producer price indexes for selected intermediate materials other than foods and energy, 2002–06**

Index	2002	2003	2004	2005	2006
Intermediate goods other than foods and energy .....	1.5	2.1	8.3	4.8	4.5
Materials for durable manufacturing .....	3.1	4.0	18.3	5.9	12.5
Steel mill products .....	11.1	1.7	48.8	-3.8	11.6
Primary nonferrous metals .....	2.9	13.5	24.9	29.9	32.7
Aluminum mill shapes .....	-9	-5	9.9	5.0	12.7
Copper and brass mill shapes .....	-1.6	11.6	29.6	31.0	44.4
Titanium mill shapes .....	4.5	-4.9	30.7	48.4	37.8
Construction materials and components .....	.8	3.0	10.1	6.1	4.3
Softwood lumber .....	2.4	8.3	9.9	-4	-15.2
Plywood .....	-1.1	31.3	-3.4	-2.9	-8.3
Treated wood .....	-2	9.4	3.3	3.8	-6.6
Building paper and board .....	2.5	38.6	-1.0	1.0	-12.6
Nonferrous wire and cable .....	-4.3	5.7	13.5	21.1	21.8
Fabricated structural metal products .....	.8	.6	17.6	2.9	4.7
Concrete products .....	-3	1.5	7.6	10.1	8.1
Paving mixtures and blocks .....	2.0	3.7	4.3	14.3	27.6
Materials for nondurable manufacturing .....	4.2	4.9	13.7	8.9	1.2
Industrial chemicals .....	10.8	8.1	24.6	13.6	4.0
Fats and oils, inedible .....	40.0	29.4	-15.6	11.9	12.4
Fertilizer materials .....	9.8	20.9	15.2	15.6	-8.3
Plastic resins and materials .....	9.2	6.4	28.6	10.8	-7.8
Paper .....	-8	.2	6.1	5.0	4.7
Paperboard .....	-2	-4.1	12.3	-3.0	13.6
Stemmed and redried tobacco .....	2.5	2.1	.8	-1	-8.8

rise a year earlier. Conversely, prices for wine and brandy spirits rose more than they had in 2005: 4.6 percent and 2.5 percent, respectively.<sup>16</sup> Per capita U.S. beer consumption, which was 30.3 gallons in 2006, was flat from 2003 to 2006.<sup>17</sup> By contrast, wine sales have risen in recent years, due to expanding consumer demand.<sup>18</sup> For 2002 through 2005—the most recent 4-year period for which data are available—total wine sales in the United States climbed 22.9 percent. On the basis of 2006 export figures, it appears that U.S. production and global consumption of wine remained strong that year.<sup>19</sup>

*Pharmaceutical preparations.* The PPI for pharmaceutical preparations increased 3.6 percent in 2006, after having advanced 6.0 percent the previous year. As was the case in 2005, most of the 2006 rise can be attributed to higher prices for prescription drugs, which climbed 4.1 percent. The index for over-the-counter medications moved up at a more tempered pace of 1.6 percent.<sup>20</sup> In 2006, the index for antidepressants rose 10.0 percent, prices for skin preparations moved up 7.3 percent, and the index for antispasmodic/antisecretory preparations increased 5.0 percent. In contrast, the index for insulin and diabetes products fell 9.0 percent, and prices for bronchial therapy drugs edged down 0.9 percent.<sup>21</sup>

## **Intermediate materials other than foods and energy**

The PPI for intermediate materials other than foods and energy rose 4.5 percent in 2006, nearly matching the 4.8-percent increase observed in 2005. Leading the 2006 advance in the intermediate core index, prices for materials for durable manufacturing surged 12.5 percent. Contributing to a lesser extent, the index for materials and components for construction climbed 4.3 percent and the index for materials for nondurable manufacturing rose 1.2 percent. (See table 4.) From 2003 to 2006, prices for intermediate goods other than foods and energy advanced 18.6 percent, compared with an increase of 12.1 percent over the 10-year period ending in 2003.<sup>22</sup>

*Materials for durable manufacturing.* The PPI for materials for durable manufacturing climbed 12.5 percent in 2006. Since the end of 2003, prices for durable-manufacturing materials have surged 41.0 percent. In comparison, this index inched up 9.3 percent from 1993 to 2003.<sup>23</sup> In 2006, higher prices for primary nonferrous metals, nonferrous mill shapes, and steel mill products outstripped lower prices for thermoplastic resins, softwood lumber, plywood, and building paper and board.

Surging prices for nonferrous metals led the 2006 rise in the index for durable-manufacturing materials. Prices for primary nonferrous metals increased 32.7 percent, while the indexes for aluminum mill shapes, copper and brass mill shapes, and titanium mill shapes jumped 12.7 percent, 44.4 percent, and 37.8 percent, respectively. From 2004 to 2006, the PPI for nonferrous metals moved up 75.4 percent.<sup>24</sup> From a production standpoint, primary copper grew just 5.4 percent in 2006 and primary aluminum increased only 1.7 percent.<sup>25</sup> However, continued strong worldwide economic growth, particularly in India and China, appears to have pushed up demand for commodities such as metals and for concrete materials and related products.<sup>26</sup> In China, for example, it is estimated that 2006 marked the fourth consecutive year that gross domestic product (GDP) expanded by more than 10 percent.<sup>27</sup> For East Asian and Pacific nations as a group, the annual rate of GDP growth has hovered in the 9.0-percent range since 2004. In India, GDP expansion for 2004 through 2006 has been estimated to be about 8.5 percent annually.<sup>28</sup>

The index for steel mill products rose 11.6 percent in 2006, following a 3.8-percent decline in 2005. Prices for cold rolled steel sheet and strip jumped 41.2 percent. In addition, the indexes for hot rolled steel sheet and strip; hot rolled steel bars, plates, and structural shapes; steel wire; and steel pipe and tube moved up 8.3 percent, 7.5 percent, 7.1 percent, and 5.5 percent, respectively.<sup>29</sup> In 2006, spot prices for nickel surged roughly 145 percent.<sup>30</sup> Nickel is required to produce stainless steel, and stainless steel surcharges linked to the runup in nickel prices helped drive 2006 prices for stainless steel products higher. Price changes for iron and steel scrap and for iron ore, which increased 2.9 percent and 7.5 percent, respectively, in 2006, affected the steel market less than they had in previous years. (See table 5.)

*Materials and components for construction.* Prices for materials and components for construction moved up 4.3 percent in 2006, compared with a 6.1-percent gain in 2005. In 2006, increasing prices for concrete products, paving mixtures and blocks, fabricated structural metal products, and nonferrous wire and cable outweighed decreasing prices for softwood lumber, plywood, treated wood, and building paper and board.

Within the concrete materials and products sector, prices for ready-mixed concrete rose 10.1 percent in 2006, on the heels of advances of 8.7 percent and 11.3 percent in 2004 and 2005, respectively. In addition, the PPI for concrete block and brick increased 6.8 percent and the index for paving mixtures and blocks jumped 27.6 percent.<sup>31</sup>

**Table 5. Annual percent changes in producer price indexes for selected crude nonfood materials less energy goods, 2002–06**

Index	2002	2003	2004	2005	2006
Crude nonfood materials less energy .....	12.6	21.6	20.5	5.2	17.0
Raw cotton.....	42.7	37.5	-35.5	16.0	2.9
Softwood logs, bolts, and timber .....	1.3	-1	5.3	2.3	-7.4
Wastepaper .....	35.1	8.7	17.3	-9.1	19.1
Iron ore .....	-1.3	1.6	6.7	15.5	7.5
Iron and steel scrap.....	27.8	64.9	50.8	-10.8	2.9
Copper ores.....	3.6	37.4	65.1	39.3	53.1
Gold ore.....	18.7	24.2	8.8	17.9	21.3
Copper base scrap .....	11.2	30.7	34.5	51.9	50.0
Aluminum base scrap .....	10.4	11.5	12.9	12.8	23.7
Construction sand, gravel, and crushed stone.....	2.5	2.4	4.3	7.7	9.3

On the manufacturing cost side, higher prices for cement (up 10.5 percent) and for construction sand, gravel, and crushed stone (up 9.3 percent) contributed to these gains. In terms of usage, world GDP continues to grow at a steady rate, resulting in ample demand worldwide for cement and concrete products, as well as for other construction materials. For example, nearly half of Chinese GDP currently is tied to capital investment expenditure.<sup>32</sup>

*Lumber and wood products, building paper and board.* The PPI for softwood lumber dropped 15.2 percent in 2006, after having edged down 0.4 percent a year earlier. Similarly, prices for plywood fell 8.3 percent, the treated-wood index declined 6.6 percent, and prices for building paper and board dropped 12.6 percent. Contributing to these decreases, at least in part, was the 2006 slowdown in new residential construction. The number of new building permits issued fell 14.9 percent, housing starts declined 12.9 percent, and housing completions dipped 2.4 percent, compared with 2005.<sup>33</sup> The United States remained a strong importer of lumber and wood products from Canada in 2006—in particular, of sawn wood, particle board products, and plywood-veneer products: the Nation posted a lumber products balance-of-trade deficit of \$10.3 billion. In 2004 and 2005, the annual trade deficit in lumber products was roughly \$12.0 billion.<sup>34</sup> In October of 2006, however, after years of negotiation, the United States and Canada entered into a trade agreement meant to help stabilize the North American lumber market.<sup>35</sup>

*Materials for nondurable manufacturing.* The PPI for materials for nondurable manufacturing rose 1.2 percent in 2006, following an 8.9-percent advance in 2005. The majority of this slower rate of increase is attributable to prices for

industrial chemicals, which rose less in 2006, and the index for plastic resins and materials, which fell after climbing in 2005. Contributing to a smaller degree, prices for fertilizer materials turned downward in 2006, while the index for stemmed and redried tobacco fell more than it had in 2005. By contrast, prices for inedible fats and oils advanced more in 2006 than they had the previous year, while the paperboard index turned upward after falling in 2005.

Prices for industrial chemicals moved up 4.0 percent in 2006, following larger increases in each of the previous 4 years. Leading this slowdown, the index for basic organic chemicals edged up 0.4 percent, after climbing 12.6 percent in 2005.<sup>36</sup> The indexes for plastic resins and materials and for fertilizer materials turned downward in 2006, following increases the previous year. Contributing to this turnaround, crude-petroleum prices were essentially unchanged in 2006 and natural-gas prices fell, compared with their respective 2005 figures. Both indexes had posted sizable gains from 2001 through 2005. Crude petroleum and natural gas are major feedstock inputs to the chemical-manufacturing process. Industrial electric power prices also rose much less than they had in 2005. In contrast, a steep runup in soybean prices helped drive up prices for inedible fats and oils, which jumped 12.4 percent in 2006.

The PPI for paperboard climbed 13.6 percent in 2006, after declining 3.0 percent in 2005, while prices for paper advanced 4.7 percent following a 5.0-percent increase the year before. Earlier in the production chain, the cost of high-grade wastepaper rose 21.7 percent in 2006, following a 7.6-percent decline in 2005; corrugated wastepaper prices surged 31.9 percent after dropping 23.8 percent; and woodpulp prices moved up 8.2 percent, compared with a 2.9-percent rise a year earlier.<sup>37</sup> Solid worldwide economic

growth appears to be helping fuel a broad-based increase in market activity in the pulp and paper sector. On the heels of a 12.1-percent rise in 2005, the dollar value of U.S. exports of wastepaper and woodpulp jumped another 13.1 percent in 2006. On the import side, the dollar value of wastepaper and woodpulp imports grew 4.1 percent in 2006.<sup>38</sup> Regarding paper, paperboard, and their products, the dollar value of U.S. exports and imports rose 7.1 percent and 5.5 percent, respectively, in 2006.<sup>39</sup>

### Crude nonfood materials less energy

The PPI for crude nonfood materials less energy climbed 17.0 percent in 2006, following a 5.2-percent increase in 2005. From December 2001 to December 2006, prices for basic industrial materials more than doubled. In comparison, over the decade leading up to 2002, the index for crude nonfood materials less energy was essentially unchanged.<sup>40</sup> Much of the 2006 rise can be traced to nonferrous metals: prices for copper ores, gold ores, and copper and aluminum base scrap all surged in 2006. (See table 5.) As mentioned previously, worldwide economic growth remained solid in 2006<sup>41</sup> and appears to have pushed up demand for commodities such as nonferrous metal ores, scrap, and smelted and milled nonfer-

rous products.

Similarly, although to a lesser extent, strong global demand for concrete products and stainless steel mill products contributed to higher prices for construction sand, gravel, and crushed stone, as well as iron and steel scrap and iron ore. Wastepaper prices surged 19.1 percent in 2006 in response to strong domestic and export demand for paper and paperboard products. In contrast, prices for softwood logs, bolts, and timber declined 7.4 percent in 2006, after rising 2.3 percent in 2005. This reversal can be traced, at least in part, to the 2006 slowdown in new residential building construction, as well as to high levels of imports for sawmill products.

### Foods and related products

The PPI for finished consumer foods rose 1.7 percent in 2006, following an identical gain in 2005 and a 3.1-percent advance in 2004. In 2006, price increases for fresh fruits and melons, processed fruits and vegetables, bakery products, eggs for fresh use, soft drinks, shortening and cooking oils, and processed young chickens outweighed price declines for beef and veal, fresh and dry vegetables, finfish and shellfish, and dairy products. (See table 6.)

At the earlier stages of processing, the index for in-

**Table 6. Annual percent changes in producer price indexes for selected foods and related products, 2002–06**

Index	2002	2003	2004	2005	2006
Finished consumer foods .....	-0.6	7.7	3.1	1.7	1.7
Fresh fruits and melons .....	-34.6	30.5	18.0	-12.2	29.5
Fresh and dry vegetables .....	-5.5	37.9	-13.9	34.3	-11.9
Eggs for fresh use .....	22.6	40.5	-29.4	5.0	22.2
Bakery products .....	2.0	1.3	2.1	2.4	4.0
Beef and veal .....	4.0	27.1	-3.8	3.2	-8.3
Pork products .....	-7.2	6.8	22.1	-8.2	-6
Processed young chickens .....	-8.6	19.9	-9	-3.1	2.6
Finfish and shellfish .....	1.6	6.4	14.2	10.7	-3.7
Processed fruits and vegetables .....	1.2	.4	3.1	3.4	8.3
Soft drinks .....	2.2	.8	3.0	2.1	2.1
Shortening and cooking oils .....	15.6	16.1	.2	-3.3	11.0
Intermediate foods and feeds .....	4.2	12.9	-2.3	2.4	4.7
Flour .....	7.2	5.0	4.9	2.6	11.9
Fluid milk products .....	-2.9	9.3	5.0	1.0	-1.4
Dry, condensed, and evaporated milk products .....	-1.9	-1.0	6.3	4.0	10.5
Confectionery materials .....	13.2	-2	1.5	-1	8.2
Prepared animal feeds .....	4.0	14.7	-11.1	5.6	11.8
Crude foodstuffs and feedstuffs .....	4.5	24.1	-2.6	1.6	2.8
Wheat .....	24.0	4.0	-5.0	-1.0	22.3
Corn .....	13.2	6.8	-22.9	.7	79.2
Slaughter cattle .....	10.3	35.4	-10.9	9.5	-9.8
Slaughter hogs .....	-4.6	20.7	48.7	-14.7	-4.4
Slaughter broilers and fryers .....	-5.1	35.4	4.3	-7.3	3.7
Slaughter turkeys .....	.0	.1	21.7	17.4	-16.9

intermediate foods and feeds climbed 4.7 percent in 2006, subsequent to a 2.4-percent increase the previous year. Accounting for this faster rate of advance, prices for prepared animal feeds, for flour, and for dry, condensed, and evaporated milk products rose more than they had in 2005, while the indexes for shortening and cooking oils, confectionery materials, and processed young chickens turned upward in 2006. Prices for pork and for natural, processed, and imitation cheese fell less than they had in 2005. By contrast, prices for beef and veal, refined sugar and byproducts, and fluid milk products turned downward in 2006.

The PPI for crude foodstuffs and feedstuffs rose 2.8 percent in 2006, compared with a 1.6-percent gain in 2005. This acceleration can be traced primarily to surging prices for corn. The indexes for slaughter broilers and fryers and for wheat turned upward in 2006, while prices for slaughter hogs fell less than they had in 2005. These changes contrasted with a downturn in prices for slaughter cattle, fresh and dry vegetables, and slaughter turkeys.

*Fresh fruits and melons.* The index for fresh fruits and melons advanced 29.5 percent in 2006, following a 12.2-percent decline a year earlier. A late frost in California, along with the residual effects of two active hurricane seasons in Florida, devastated the supply of fruits and melons and led the fruits and melons index to its highest levels since 1991. The 2006 orange crop was projected to total 7.9 million tons, an 11-percent decrease from 2005 levels and the lowest yield since 1990. The lemon crop was projected to decline 9 percent. Even though grapefruit production was expected to increase 27 percent in 2006, to 1.6 million tons, that would still be the third-smallest grapefruit crop since 1949.<sup>42</sup> Outside the citrus segment, estimates for grape and apple production also fell in 2006, by 14 percent and 2 percent, respectively.<sup>43</sup>

*Wheat, flour, and bakery products.* The wheat index climbed 22.3 percent in 2006, after having declined 1.0 percent a year earlier. Wheat prices in 2006 were adversely affected by dry conditions, as the Southern Plains registered one of its worst droughts. Domestic wheat production fell 14 percent, to 49 million metric tons (mmt), down from 58 mmt in 2005. Global wheat production dropped 5 percent in 2006, to 593 mmt, due primarily to severe drought in Australia.<sup>44</sup> The flour index increased 11.9 percent in 2006, chiefly because of rising wheat prices. (The key input into flour is wheat.) This increase, along with higher prices for refined sugar, had an impact further down the chain of production as prices for bakery products rose 4.0 percent in 2006.

*Corn and prepared animal feeds.* Prices for corn surged 79.2 percent in 2006 as lower supplies and heated demand transformed corn into a hot commodity. Early in 2006, record prices for fertilizer led to a 234,000-acre decrease in planted acreage of corn. Corn production declined from 11.1 billion bushels in 2005 to 10.5 billion bushels in 2006, a 5-percent reduction, but still the third-highest corn crop on record.<sup>45</sup> Corn demand for 2006 was forecast at a record 11.8 billion bushels, 500 million bushels more than the 11.3 billion bushels demanded in 2005.<sup>46</sup> Corn used for processing into ethanol rose 31 percent in 2006, to 2.1 billion bushels from 1.6 billion bushels in 2005,<sup>47</sup> as the national Renewable Fuels Standard and the mandated conversion from methyl tertiary-butyl ether to ethanol as a gasoline additive (both created through the Energy Policy Act of 2005) increased ethanol demand.<sup>48</sup> Corn demand has exceeded production for 2 consecutive years; consequently, the 2006 yearend inventory estimate was 752 million bushels, the lowest level since 1995.<sup>49</sup> Corn prices surged 64.5 percent in the fourth quarter of 2006 as the commodity markets reacted to these limited supplies.

The prepared animal feeds index advanced 11.8 percent in 2006, after a 5.6-percent advance in 2005. Early in 2006, U.S. Department of Agriculture projections were generally optimistic concerning corn, soybeans, and wheat—three major inputs into prepared animal feeds. However, lower production and increased demand for these agricultural products led to higher prices, which passed through to prepared animal feeds during the fourth quarter. Animal feed prices also were affected by poor weather in 2006 that limited the use of pasture for livestock grazing.

*Slaughter cattle, and beef and veal.* The indexes for slaughter cattle and for beef and veal were the two principal price decliners in the food category. The index for slaughter cattle fell 9.8 percent in 2006, after having risen 9.5 percent a year earlier. Correspondingly, prices for beef and veal decreased 8.3 percent, following a 3.2-percent advance in 2005. Increased cattle supplies, especially late in the year, helped lower prices in the slaughter cattle and beef and veal segment as farmers increased slaughter rates in reaction to rising animal feed prices and to depleted hay stocks. According to the U.S. Department of Agriculture, “Commercial cow slaughter, at roughly 5.4 million head for 2006, is 11.7 percent above the slaughter for 2005.”<sup>50</sup> In addition, the weak export market for U.S. beef has led to increased domestic supplies. Demand from South Korea and Japan, which together accounted for 60 percent of the U.S. beef export market in 2003, still has not recovered from the 2004 mad cow disease scare.<sup>51</sup> Both countries

have enacted regulations—South Korea a zero-tolerance policy toward bone fragments in beef, and Japan an age requirement of 20 months or younger in cattle—that, in effect, preclude the importation of U.S. beef.<sup>52</sup> Although the weaker dollar has stimulated Canadian and Mexican demand, 2006 beef and veal exports totaled only 1.15 billion pounds, less than half the 2003 level of 2.52 billion pounds.<sup>53</sup>

*Slaughter hogs and processed pork.* The PPI for slaughter hogs declined 4.4 percent in 2006, after having fallen 14.7 percent a year earlier. Similarly, the index for processed pork fell 0.6 percent, following an 8.2-percent decline in 2005. In 2006, slaughter hog prices decreased as higher feed costs provided an incentive to send more hogs to market. At the same time, processed pork prices were buoyed by strong demand for pork products. The export market for pork, which surged 22 percent in 2005, increased an additional 15 percent in 2006, to nearly 3 billion pounds.<sup>54</sup> The U.S. Department of Agriculture says, “U.S. pork continues to be a substitute for beef and poultry banned in many countries due to [mad cow disease] or avian influenza...”<sup>55</sup>

*Slaughter broilers and fryers, and processed young chickens.* The indexes for slaughter broilers and fryers and for processed young chickens turned upward by 3.7 percent and 2.6 percent, respectively, in 2006. These markets experienced weak pricing in late 2005 and early 2006 as fear surrounding avian flu rattled the poultry market. After the panic subsided, price levels rose in the second half of the year, reflecting higher production costs for feed, little growth in production, and low stock levels.<sup>56</sup> Strengthened demand also contributed to higher prices, as domestic per capita broiler consumption increased 1.9 percent, to 87.4 pounds in 2006 from 85.8 pounds in 2005.<sup>57</sup>

## Services

The majority of service industries measured by the Producer Price Index saw higher prices in 2006. The most significant price increases came from general medical and surgical hospitals, direct health and medical insurance carriers, offices of lawyers, noncasino hotels and motels, and engineering services; lower prices characterized the industries for scheduled passenger air transportation, Internet service providers, lessors of nonresidential buildings (except miniwarehouses), and cellular and other wireless carriers. (See table 7.)

*General medical and surgical hospitals.* The index for general medical and surgical hospitals increased 3.9 percent in 2006, following a 4.2-percent gain in the previous 12-month period. The indexes for Medicare patients, Medicaid patients, and all other patients rose 3.9 percent, 1.7 percent, and 4.4 percent, respectively. These advances can be traced to (1) increased costs for health care services brought on by higher priced technologies and by increased utilization resulting from aging; (2) lifestyle challenges such as obesity, smoking, drug abuse, and physical inactivity; (3) new treatments; (4) more intensive diagnostic testing; and (5) increased consumer demand.

*Direct health and medical insurance carriers.* The aforesaid costs of health care services were passed through to direct health and medical insurance carriers, whose prices increased 3.7 percent in 2006 and 4.8 percent the previous year. According to PricewaterhouseCoopers, “The overwhelming share of health insurance premiums goes to pay for the cost of health benefits—actual services such as hospitals, doctors, drugs, and other services that directly benefit

**Table 7. Annual percent changes in producer price indexes for selected service industries, 2002–06**

Index	2002	2003	2004	2005	2006
General medical and surgical hospitals .....	5.3	4.9	4.6	4.2	3.9
Direct health and medical insurance carriers .....	—	8.7	4.0	4.8	3.7
Offices of lawyers .....	3.4	2.8	4.3	6.1	4.9
Noncasino hotels and motels .....	—	—	2.9	7.4	4.1
Engineering services .....	2.6	3.0	2.3	2.1	4.7
Cellular and other wireless carriers .....	3.9	-1.2	-4.7	-15.1	-7
Lessors of nonresidential buildings (except miniwarehouses) .....	3.0	1.9	4.2	4.1	-4
Internet service providers .....	—	—	—	-4.7	-25.7
Scheduled passenger air transportation .....	1.0	1.9	-1.5	7.7	-1.1

NOTE: Dash indicates data not available.

consumers.<sup>58</sup> In 2006, besides the 3.9-percent rise in the index for general medical and surgical hospitals, the index for offices of physicians increased 1.1 percent and the index for pharmaceutical preparations moved up 3.6 percent.

*Offices of lawyers.* The index for offices of lawyers advanced 4.9 percent in 2006, after climbing 6.1 percent in 2005 and 4.3 percent in 2004. In 2006, prices for corporate legal services and for real estate legal services rose 6.8 percent and 5.2 percent, respectively, as demand for these services remained particularly strong. To meet the growing demands of their clients, firms increased the salaries they paid, in order to attract and retain the best lawyers. A *Chicago Tribune* article cited market pressure to increase salaries as the chief factor causing firms in the legal services industry to escalate their billing rates.<sup>59</sup>

*Noncasino hotels and motels.* Following a 7.4-percent advance in 2005, prices for services performed by noncasino hotels and motels increased 4.1 percent in 2006. Overall growth in revenues remained steady despite higher gasoline and jet fuel prices, security concerns, consolidation in the meetings and events industry, and government-imposed travel restrictions. According to Smith Travel Research, revenue per available room (a statistic calculated by combining the average occupancy rate and average room rate) is a key industry productivity measure that increased 8.4 percent in 2005 and 7.5 percent in 2006, showing that growth, while still strong, is slowing.<sup>60</sup>

*Engineering services.* The index for engineering services moved up 4.7 percent in 2006, after having risen 2.1 percent the previous year. This acceleration in prices was the result of both increased demand for construction services and wage pressure within the industry. Compared with 2005, 2006 saw construction spending advance 4.8 percent,<sup>61</sup> with the most significant price increases coming from the nonresidential market, in which spending for private nonresidential construction was up 16.2 percent.<sup>62</sup> The engineering industry saw a recovery in wage increases in 2006, following wage deceleration in 2005 linked to the slowing housing market and to fears that an economic slowdown might occur. After the rebound of economic growth and private construction spending in 2006, increased demand for engineering services led to wage increases that were passed forward to firms' clients.

*Scheduled passenger air transportation.* The index for scheduled passenger air transportation decreased 1.1 percent during 2006, following an increase of 7.7 percent in

2005. This index, which mostly increased throughout the first 8 months of 2006, exhibited a significant downturn for the remainder of the year. Prices tumbled, especially in September, in response to both the dropoff in seasonal demand following the typical busy summer travel season and the effects of the terror plot discovered on August 10, 2006, in London.<sup>63</sup>

*Internet service providers.* The index for Internet service providers decreased 25.7 percent from December 2005 to December 2006, compared with a 4.7-percent decline in 2005. Prices for dial-up and asymmetric digital subscriber line (DSL) Internet access plummeted 41.1 percent, while the index for leased line and symmetric DSL Internet access fell 10.8 percent. A number of factors placed downward price pressure on Internet service providers in 2006. First, many Internet subscribers shifted from slower dial-up connections to high-speed connections such as DSL and cable broadband, leading to falling prices for dial-up access services. Second, increased demand for broadband access created fierce competition between DSL and cable broadband Internet providers, resulting in falling DSL prices.

*Lessors of nonresidential buildings (except miniwarehouses).* The index for lessors of nonresidential buildings (except miniwarehouses) fell 0.4 percent in 2006, after increasing 4.1 percent in 2005. The downturn can be attributed to a drop in prices for the leasing of both open and enclosed shopping centers, which declined 1.9 percent and 7.7 percent, respectively. Partially offsetting these declines, the index for lessors of manufacturing and industrial buildings advanced 7.4 percent in 2006.

*Cellular and other wireless carriers.* The index for cellular and other wireless carriers edged down 0.7 percent in 2006, after having sunk 15.1 percent a year earlier. From December 2003 to December 2006, prices fell nearly 20 percent as the Wireless Telephone Number Portability Act of 2003 gained increasing momentum. The Act mandated that individual consumers and businesses seeking to change wireless telephone service providers could do so without forgoing their existing phone numbers.<sup>64</sup> Prices dropped 15.1 percent in 2005 as major players within the wireless industry competed with each other to capture and maintain market share. In addition, technological advancements over the years have reduced costs faced by wireless carriers. Price declines continued in 2006, but to a lesser extent than in previous years as companies appeared more interested in their bottom lines. □

## Notes

<sup>1</sup> The stage-of-processing indexes for finished, intermediate, and crude goods other than foods and energy are commonly referred to as the indexes for *finished core*, *intermediate core*, and *crude core*, respectively. The index for crude goods other than foods and energy also is referred to as the index for *crude nonfood materials less energy* and the index for *basic industrial materials*.

<sup>2</sup> For details, see *U.S. Crude Oil, Natural Gas, and Natural Gas Liquids Reserves: 2005 Annual Report* (U.S. Department of Energy, September 2006), on the Internet at [www.eia.doe.gov/pub/oil\\_gas/natural\\_gas/data\\_publications/advanced\\_summary/current/adsum.pdf](http://www.eia.doe.gov/pub/oil_gas/natural_gas/data_publications/advanced_summary/current/adsum.pdf) (visited May 15, 2007).

<sup>3</sup> *The Role of Market Speculation in Rising Oil and Gas Prices: A Need to Put the Cop Back on the Beat* (Washington, DC, U.S. Senate Permanent Subcommittee on Investigations, June 27, 2006).

<sup>4</sup> "Standards for Reformulated and Conventional Gasoline" (U.S. Environmental Protection Agency, Apr. 25, 2007), on the Internet at [www.epa.gov/otaq/rfg\\_regs.htm#usage](http://www.epa.gov/otaq/rfg_regs.htm#usage) (visited May 17, 2007).

<sup>5</sup> "Diesel Fuel Programs and Regulations" (U.S. Environmental Protection Agency, Oct. 10, 2006), on the Internet at [www.epa.gov/otaq/regs/fuels/diesel/diesel.htm#regs](http://www.epa.gov/otaq/regs/fuels/diesel/diesel.htm#regs) (visited May 17, 2007).

<sup>6</sup> U.S. Department of Energy, "Electric Power Generation by Fuel Type (2005)," on the Internet at [www.eia.doe.gov/fuelelectric.html](http://www.eia.doe.gov/fuelelectric.html) (visited May 17, 2007).

<sup>7</sup> In December 2005, the capital equipment index constituted 41.5 percent of the index for finished goods other than foods and energy, and the index for finished consumer goods other than foods and energy made up the remaining 58.5 percent.

<sup>8</sup> Light motor trucks are defined as pickup trucks, full-size vans, minivans, and sport utility vehicles up to 14,000 pounds gross vehicular weight.

<sup>9</sup> Retail domestic sales track sales in the United States. The Commerce Department data cited in this section categorize production either as North American (vehicles assembled in the United States, Canada, or Mexico) or as having taken place outside of North America. No U.S.-only production figures are available.

<sup>10</sup> The data included in this section come from the U.S. Department of Commerce, Bureau of Economic Analysis, "National Economic Accounts, Gross Domestic Product—Motor Vehicle Estimates," on the Internet at [www.bea.gov/national/index.htm](http://www.bea.gov/national/index.htm) (visited Mar. 19, 2007).

<sup>11</sup> Monthly inventory ratios included in table 10 of the Commerce Department report were averaged for their respective years. In 2005, the average ratio was 2.359; in 2006, the ratio grew to 2.430. The Commerce Department calculates monthly inventory ratios by dividing seasonally adjusted passenger car inventories by seasonally adjusted passenger car sales, for North American production.

<sup>12</sup> The heavy-trucks data contained in table 5 of the Commerce Department data combine domestic and foreign production.

<sup>13</sup> Aerospace Industries Association, "2006 Year-End Review and Forecast," Dec. 13, 2006, on the Internet at [www.aia-aerospace.org/stats/yr\\_ender/yr\\_ender.cfm](http://www.aia-aerospace.org/stats/yr_ender/yr_ender.cfm) (visited Mar. 20, 2007).

<sup>14</sup> Economic Research Service, *Tobacco Situation and Outlook Yearbook*, TBS-2006 (U.S. Department of Agriculture, Dec. 21, 2006), p. 41.

<sup>15</sup> *Ibid.*, p. 19.

<sup>16</sup> To locate PPI data on the BLS Web site, visit [data.bls.gov/cgi-bin/srgate](http://data.bls.gov/cgi-bin/srgate) and enter the series identifiers in question. The series identifiers

for malt beverages and for wine and brandy spirits are WPU026101 and WPU026104, respectively.

<sup>17</sup> The Beer Institute, "Shipment of Malt Beverages and Per Capita Consumption by State, 2003 to 2006," on the Internet at [www.beerinstitute.org/statistics.asp?sid=2](http://www.beerinstitute.org/statistics.asp?sid=2) (visited Mar. 20, 2007).

<sup>18</sup> The Wine Institute, "2005 California Wine Sales Continue Growth Trend as Wine Enters Mainstream of U.S. Lifestyle," Apr. 3, 2006, on the Internet at [www.wineinstitute.org/industry/statistics/2006/wine\\_sales.php](http://www.wineinstitute.org/industry/statistics/2006/wine_sales.php) (visited Mar. 20, 2007).

<sup>19</sup> The Wine Institute, "U.S. Wine Exports, 95 Percent from California, Jump 30 Percent to \$876 Million in 2006," Mar. 14, 2007, on the Internet at [www.wineinstitute.org/industry/exports/2007/us\\_wine\\_exports.php](http://www.wineinstitute.org/industry/exports/2007/us_wine_exports.php) (visited Mar. 20, 2007).

<sup>20</sup> Although the PPI discontinued its commodity-based prescription drug and over-the-counter drug indexes in June 2001, the PPI program continues to publish best estimate, special-aggregation indexes that allocate product-line price information to prescription and over-the-counter categories according to their preponderance of revenue. The series identifiers for these categories are PCU32541D32541DRX and PCU32541D32541DOTC.

<sup>21</sup> The series identifiers for antidepressants, skin preparations, antispasmodic and antisecretory drugs, insulin and diabetes products, and bronchial therapy drugs are, respectively, PCU32541232541241121, PCU325412325412G, PCU325412325412D111, PCU3254123254121112, and PCU325412325412A111.

<sup>22</sup> The series identifier for the PPI for intermediate materials other than foods and energy is WPUSOP2900.

<sup>23</sup> The series identifier for the PPI for materials for durable manufacturing is WPUSOP2130. Although the notably higher rate of inflation for the intermediate core index from 2003 to 2006, compared with the rate during the previous decade, was led by accelerating rates of inflation for durable-manufacturing materials, rising prices for materials and components for construction (WPUSOP2200) and for materials for nondurable manufacturing (WPUSOP2120) also contributed to the increase.

<sup>24</sup> The series identifier for the PPI for nonferrous metals is WPU102.

<sup>25</sup> International Copper Study Group, "Forecast 2006–2007," Oct. 2, 2006, on the Internet at [www.icsg.org](http://www.icsg.org) (visited Mar. 22, 2007); International Aluminum Institute, "Statistical Report Form 150," Mar. 20, 2007, on the Internet at [www.world-aluminium.org/iai/stats/index.asp](http://www.world-aluminium.org/iai/stats/index.asp) (visited Mar. 22, 2007).

<sup>26</sup> World Bank, *Prospects for the Global Economy*, December 13, 2006, on the Internet at [siteresources.worldbank.org/EXTGBLPROSPECTS/Resources/Chap1EXTOP.pdf](http://siteresources.worldbank.org/EXTGBLPROSPECTS/Resources/Chap1EXTOP.pdf) (visited Mar. 22, 2007).

<sup>27</sup> *Ibid.*, p. 3; see also National Bureau of Statistics of China, *Statistical Data*, on the Internet at [www.stats.gov.cn/english/statisticaldata/yearlydata](http://www.stats.gov.cn/english/statisticaldata/yearlydata) (visited Mar. 22, 2007).

<sup>28</sup> World Bank, *Prospects for the Global Economy*, p. 3.

<sup>29</sup> The series identifiers for cold rolled steel sheet and strip; steel wire; hot rolled steel bars, plates, and structural shapes; steel pipe and tube; and hot rolled steel sheet and strip are, respectively, WPU101707, WPU101705, WPU101704, WPU101706, and WPU101703.

<sup>30</sup> London Metal Exchange, cash buyer prices database for nickel, per ton: Jan. 3, 2006, \$13,500 per ton; Jan. 3, 2007, \$32,975 per ton; on the Internet at [www.lme.co.uk/dataprices\\_reports.asp](http://www.lme.co.uk/dataprices_reports.asp) (visited Mar. 21, 2007).

<sup>31</sup> The series identifiers for cement, ready-mixed concrete, concrete blocks and bricks, and paving mixtures and blocks are, respectively, WPU1322, WPU1333, WPU1332, and WPU1394.

<sup>32</sup> World Bank, *Prospects for the Global Economy*, p. 6; see also National Bureau of Statistics of China, "Urban Investment in Fixed Assets Grew 23.4 Percent in the First Two Months [of 2007]," on the Internet at [www.stats.gov.cn/english/newsandcomingevents/t20070319\\_402391991.htm](http://www.stats.gov.cn/english/newsandcomingevents/t20070319_402391991.htm) (visited Mar. 26, 2007).

<sup>33</sup> U.S. Census Bureau and U.S. Department of Housing and Urban Development, *New Residential Construction in December 2006*, CB07-12 (U.S. Department of Commerce, Jan. 18, 2007).

<sup>34</sup> International Trade Administration, "Harmonized System Code 44, Wood and Articles from Wood, 2006 Balance with Canada," U.S. Department of Commerce, on the Internet at [tse.export.gov](http://tse.export.gov) (visited Mar. 26, 2007).

<sup>35</sup> Office of the United States Trade Representative, "Softwood Lumber Agreement between the Government of the United States of America and the Government of Canada," on the Internet at [www.ustr.gov/assets/World\\_Regions/Americas/Canada/asset\\_upload\\_file847\\_9896.pdf](http://www.ustr.gov/assets/World_Regions/Americas/Canada/asset_upload_file847_9896.pdf) (visited Mar. 26, 2007). For a news release summary of this agreement, see Office of the United States Trade Representative, "U.S. Trade Representative Susan C. Schwab Announces Entry into Force of U.S.-Canada Softwood Lumber Agreement," Oct. 12, 2006, on the Internet at [www.ustr.gov/Document\\_Library/Press\\_Releases/2006/October/US\\_Trade\\_Representative\\_Susan\\_C\\_Schwab\\_Announces\\_Entry\\_into\\_Force\\_of\\_US-Canada\\_Softwood\\_Lumber\\_Agreement.html](http://www.ustr.gov/Document_Library/Press_Releases/2006/October/US_Trade_Representative_Susan_C_Schwab_Announces_Entry_into_Force_of_US-Canada_Softwood_Lumber_Agreement.html) (visited Mar. 26, 2007).

<sup>36</sup> The series identifier for the PPI for basic organic chemicals is WPU0614.

<sup>37</sup> The series identifiers for high-grade wastepaper, corrugated wastepaper, and woodpulp are, respectively, WPU091207, WPU091203, and WPU0911.

<sup>38</sup> International Trade Administration, "Harmonized System Code 47, Pulp of Wood or of other Fibrous Cellulosic Material; Waste and Scrap of Paper and Paperboard," U.S. Department of Commerce, on the Internet at [tse.export.gov](http://tse.export.gov) (visited Mar. 27, 2007).

<sup>39</sup> International Trade Administration, "Harmonized System Code 48, Paper and Paperboard and Articles Thereof," U.S. Department of Commerce, on the Internet at [tse.export.gov](http://tse.export.gov) (visited Mar. 27, 2007).

<sup>40</sup> The series identifier for the PPI for crude nonfood materials less energy is WPU091500.

<sup>41</sup> World Bank, *Prospects for the Global Economy*, pp. 1–5.

<sup>42</sup> U.S. Department of Agriculture, *Fruit and Tree Nuts Outlook*, FTS-325, Nov. 30, 2006.

<sup>43</sup> U.S. Department of Agriculture, *Fruit and Tree Nuts Outlook*, FTS-324, Sept. 30, 2006. The 2006 figures cited in this paragraph are projected, rather than final, because the Department posts final figures on a 1-year lag. Final 2006 figures will appear in the Department's 2007 report.

<sup>44</sup> *Wheat Yearbook—Summary*, ERS-WHS-2007A (U.S. Department of Agriculture, Mar. 27, 2007).

<sup>45</sup> *Feed Outlook*, FDS-07a (U.S. Department of Agriculture, Jan. 17, 2007).

<sup>46</sup> *Ibid.*

<sup>47</sup> *Feed Grains Database: Yearbook Values* (U.S. Department of Agriculture), on the Internet at [www.ers.usda.gov/data/FeedGrains/StandardReports/YBTABLE31.htm](http://www.ers.usda.gov/data/FeedGrains/StandardReports/YBTABLE31.htm) (visited May 21, 2007).

<sup>48</sup> *Federal Regulations: Renewable Fuels Standard*, on the Internet at [www.ethanolrfa.org/policy/regulations/federal/standard](http://www.ethanolrfa.org/policy/regulations/federal/standard) (visited May 21, 2007).

<sup>49</sup> *Datasets: Feed Grains Database* (U.S. Department of Agriculture, Economic Research Service), on the Internet at [www.ers.usda.gov/Data/FeedGrains](http://www.ers.usda.gov/Data/FeedGrains) (visited May 21, 2007).

<sup>50</sup> *Livestock, Dairy, and Poultry Outlook*, LPM-M-151 (U.S. Department of Agriculture, Jan. 23, 2007).

<sup>51</sup> *Background Statistics: U.S. Beef and Cattle Industry* (U.S. Department of Agriculture, Economic Research Service), on the Internet at [www.ers.usda.gov/news/bsecoverage.htm](http://www.ers.usda.gov/news/bsecoverage.htm) (visited May 21, 2007).

<sup>52</sup> *Briefing Rooms—Cattle: Trade* (U.S. Department of Agriculture, Economic Research Service), on the Internet at [www.ers.usda.gov/Briefing/Cattle/Trade.htm](http://www.ers.usda.gov/Briefing/Cattle/Trade.htm) (visited May 21, 2007).

<sup>53</sup> *Background Statistics: U.S. Beef and Cattle Industry*.

<sup>54</sup> *Livestock, Dairy, and Poultry Outlook*, LPM-M-151, Jan. 23, 2007.

<sup>55</sup> *Livestock, Dairy, and Poultry Outlook*, LPM-M-146-01, September 2006.

<sup>56</sup> *Livestock, Dairy, and Poultry Outlook*, LPM-M-150, Dec. 16, 2006.

<sup>57</sup> *Livestock, Dairy, and Poultry Outlook*, LPM-M-151, Jan. 23, 2007.

<sup>58</sup> PricewaterhouseCoopers, "Factors Fueling Rising Healthcare Costs 2006," *Healthcare*, on the Internet at [pwchealth.com/cgi-local/hcregister.cgi?link=reg/fuel.pdf](http://pwchealth.com/cgi-local/hcregister.cgi?link=reg/fuel.pdf) (visited May 21, 2007).

<sup>59</sup> Ameet Sachdev, "Raising the bar for legal salaries," *Chicago Tribune*, Jan. 27, 2007, p. 1.

<sup>60</sup> American Hotel & Lodging Association, *Inside the Industry: 2006 Annual Report*, on the Internet at [www.ahla.com/pdf/Annual-Report-2006.pdf](http://www.ahla.com/pdf/Annual-Report-2006.pdf) (visited May 21, 2007).

<sup>61</sup> "December 2006 Construction at \$1,177.7 Billion Annual Rate," Table 4, "Annual Value of Construction Put in Place in the United States," in *U.S. Census Bureau News*, CB07-20 (U.S. Census Bureau, Jan. 31, 2007), on the Internet at [www.census.gov/const/C30/pr200612.xls](http://www.census.gov/const/C30/pr200612.xls) (visited May 21, 2007).

<sup>62</sup> *Ibid.*

<sup>63</sup> "Terror plot leaves Britain on highest alert," on the Internet at [www.cnn.com/2006/WORLD/europe/08/11/terror.plot/index.html](http://www.cnn.com/2006/WORLD/europe/08/11/terror.plot/index.html) (visited May 21, 2007).

<sup>64</sup> Wireless Telephone Number Portability Act of 2003 (S. 1221), on the Internet at Library of Congress Web site [thomas.loc.gov/](http://thomas.loc.gov/) (visited May 21, 2007).