Import price rise in 2005
due to continued high energy prices

The rise in energy prices influenced the overall increase for import prices and the rise in soybean prices led the increase in agricultural export prices; Hurricanes Katrina and Rita caused short-term shocks to prices.

Import and Export Price Indexes, 2005

Jeffrey Bogen

Import prices rose 8.0 percent in 2005—the fastest pace since 1987 and the fourth consecutive annual increase—following an increase of 6.7 percent a year earlier. Excluding energy goods, import prices rose a comparatively modest 1.1 percent following a 3.0-percent increase a year earlier. Export prices rose 2.8 percent, also the fourth consecutive annual increase, but a smaller increase than the 4.0-percent increase in 2004. Excluding agricultural products, export prices rose 2.6 percent following a 5.0-percent increase a year earlier.

Although hurricanes Katrina and Rita caused price surges for products ranging from building materials to petroleum-based chemicals, these shocks appear to have been only short term. The more noteworthy story in 2005, however, was the continuation of rising prices for energy and raw materials. Import energy prices, which rose 43.5 percent, had a substantial impact on overall import prices as energy products made up 13 percent of all imports.

Exchange rates also affected import prices and were reflected in the Locality of Origin price indexes. These price indexes measure price fluctuations of imported products aggregated by the country or region from which they were imported. This aggregation method allows analysts to study the effects of exchange rates on import prices. The European Union (EU) price index of manufactured goods and the Japanese price index, which ended 2005 up 1.8 percent and down 0.7 percent, respectively, increased early in the year due to a comparatively weak dollar, but declined in the second half of the year as the dollar strengthened. By the end of the year, the dollar had appreciated 10.2 percent against the euro and 13.1 percent against the Japanese yen. In contrast, the U.S. dollar depreciated 1.3 percent against the Canadian dollar in 2005. The strong Canadian dollar, along with higher energy prices, contributed to the 11.1-percent increase in the Canadian price index.

This article contains analysis of the annual data from the Bureau of Labor Statistics International Price Program (IPP). It focuses on import and export price trends for all goods. This article also provides some analysis of the price indexes for transportation services between establishments in the United States and those in other countries.

Other price measures

The IPP, along with the Consumer Price Index (CPI), which measures monthly price changes for consumer goods and services, and the Producer Price Index (PPI), which measures monthly fluctuations in prices received by domestic producers, form the three major BLS price-measuring programs.

Similar to the trends for the Import and Export Price Indexes, the Consumer Price Index for All Urban Consumers (CPI-U) and PPI increased in 2005. The increases for both the CPI-U and PPI, like those for the Import and Export Price Indexes, were heavily influenced by sharply higher energy prices. When energy prices are excluded...
Import and Export Price Indexes

from all four price indexes, the increases were comparatively modest and the indexes remained relatively stable, although the Import and Export Price Indexes varied more in magnitude during 2005 than the CPI-U and PPI. The price indexes, with the exception of the CPI-U, declined in the last quarter. (See chart 1.)

The energy component of the CPI-U rose 17.1 percent in 2005 compared with an increase of 16.6 percent a year earlier. When energy prices are excluded, the CPI-U increased 2.2 percent, which was identical to the increase recorded a year earlier. Overall, the CPI-U rose 3.4 percent following an increase of 3.3 percent in 2004.

Energy prices tracked by the PPI for finished goods increased 23.9 percent following a smaller increase of 13.4 percent in 2004. Excluding energy, prices for finished goods at the producer level rose 1.5 percent after rising 2.5 percent in 2004. Overall, the PPI for finished goods rose 5.4 percent after a 4.2-percent increase in 2004.

Import price trends

Energy. Import energy prices rose 43.5 percent following a 31.5-percent increase in 2004 and had a significant influence on the overall increase for import prices in 2005. (See table 1.) Prices for energy products rose throughout most of the year, but weakened demand caused prices to decline in the last quarter.

Supply concerns permeated the energy markets early in the year. Analysts cited low crude inventories and the lack of spare production capacity in oil exporting countries. Though crude oil inventories declined domestically on a weekly basis during that period, they were still higher compared with inventory levels for the same period in 2004. Damage to production facilities from the 2004–05 hurricane season, Hurricane Ivan in particular, hampered crude oil production in the southern United States. As a result, the equivalent of 8 percent of daily production remained closed for repair during January 2005.

Supply concerns for refined products continued throughout the spring due to scheduled maintenance at U.S. refineries, which kept some off line longer than anticipated.

Anticipation of a continued surge in demand from China also contributed to higher energy prices early in the year. Petroleum demand in China spiked in 2004 due to widespread blackouts that forced many factories to supply their own electricity using diesel-powered generators. Instead of continuing to increase, China’s growth rate of petroleum demand was nearly cut in half after its domestic electricity situation stabilized. (See chart 2 on page 6.) Even with demand from China slowing, global demand for petroleum remained strong early in the year when cold weather in North America increased demand for heating oil.
Weather concerns sent energy prices even higher in 2005, especially in May, when the National Weather Service released a report predicting an active Atlantic hurricane season. Soon after the release of that report, tropical storm Arlene made landfall in early June. Though causing little damage to oil infrastructure in the Gulf of Mexico, the first storm of the season gave the energy markets reason to be cautious. Texas, Louisiana, and Mississippi were then battered by Hurricanes Katrina and Rita in late summer and early fall. Crude oil import prices were largely unaffected by these storms even though Louisiana’s main crude oil terminal was temporarily shut down after Hurricane Katrina. The terminal closure had a ripple effect through the production chain as it squeezed supplies of crude oil to refineries as far north as Illinois, Indiana, and Ohio. Prices for crude oil rose comparatively modest 3.9 percent in September, after increasing 29.8 percent over the previous 3 months, and declined in both October and November. These post-storm decreases were attributed to weaker demand in response to consistently high price levels and a warm beginning to the 2005–06 winter heating season. The hurricanes had a larger impact on the supply of refined products than crude oil because much of the refining infrastructure used to produce these products is located in the gulf region. Ten refineries spread throughout Louisiana, Mississippi, and Alabama were shut down immediately after Hurricane Katrina struck. Hurricanes Katrina and Rita affected also domestic natural gas production. Hurricane Katrina destroyed 108 platforms in the Gulf of Mexico and damaged underwater pipelines. This damage reduced gulf-area gas production by almost 320 billion

<table>
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<th>End use</th>
<th>Description</th>
<th>Relative importance November 2005</th>
<th>Percent change for 12 months ended in December</th>
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<td><strong>Imports</strong></td>
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1 Relative importance figures are based on 2003 trade values. 

*Note:* Dash indicates data not available.
Import and Export Price Indexes

Chart 2. Petroleum consumption in China, 2000–05

Petroleum consumption (millions of barrels per day)

Annual percent change

Petroleum consumption
Annual percent change


Cubic feet, which is roughly equal to 5 days worth of domestic consumption. As a result, import prices rose 29.0 percent in August and 24.8 percent in September. Natural gas prices ended the year 54.9 percent higher, and have tripled since 2001.

Nonfuel industrial supplies and materials. Prices for industrial supplies, excluding energy, rose 4.4 percent, which was a comparatively smaller increase compared with the 13.4-percent increase in 2004. The demand slowdown in the steel market was a major factor for the smaller increase in 2005. In 2004, many companies feared shortages would develop due to strong Chinese demand, which led many to purchase two to three times more steel than needed. This strategy caused inventories to rise, which ultimately softened demand. Although the overall trend in steel prices for the year was down, prices for steel scrap and lower cost alternatives rose early in the year as manufacturers attempted to lower operating costs.

Hurricane Katrina had a short-term impact on building materials, and through the first half of 2006, the long-term effects appear to be minimal. The index for building materials excluding petroleum rose 4.5 percent in September and 4.6 percent in October, but then remained relatively flat for the last 2 months of the year. New home construction typically slows down in the North during the winter months, so overall demand for building materials typically slips in the fall and winter months, which usually causes this price index to decline late in the year. However, the hurricanes initially sparked fears of supply shortages, which led to higher prices in September and October. Prices subsequently stabilized as higher costs in the South, due to storm-related plant outages and higher demand, were offset by decreased new home construction in the North.

Capital goods. Prices for capital goods decreased 1.3 percent, which was larger than the 0.8-percent drop in 2004. The decline was led by computers and telecommunications equipment, both of which continued well-established downward trends. Prices for electronic equipment typically fall as products eventually become obsolete and new products are introduced to replace them. Computer, peripheral, and semiconductor prices, as well as telecommunications equipment prices, declined steadily throughout the year and ended the year down 5.2 and 2.4 percent, respectively. The constant declines in computer prices overall were due to continued weak demand, technological improvements, and price competition; however, demand for laptop and handheld computers remained healthy, though not strong enough to overcome declining prices for other computer products.
Prices for capital goods excluding computers and semiconductors increased for the third consecutive year. The index rose 1.2 percent compared with 2.0 percent in 2004. The main influences on these prices were raw materials prices (especially for copper and steel) and the demand for oil drilling equipment. Many companies renegotiated steel contracts at the beginning of the year to reflect the spike in prices that occurred in 2004. Higher copper prices later in the year affected electrical generating equipment. Oil drilling and mining equipment prices rose steadily and consistently throughout the year, increasing 8.3 percent in 2005. This followed a large increase of 12.9 percent in 2004. Prices increased due to higher raw material costs and greater demand due to consistently high oil prices.

Automotive vehicles, parts and engines. The price index for automotive vehicles, parts and engines increased 0.4 percent in 2005, which was the fourth consecutive annual increase. Prices for passenger vehicles ended the year 0.1 percent higher due to continued high demand, especially for imported luxury automobiles. Demand has remained strong because buyers of luxury vehicles were not deterred by high gasoline prices.

The price index for parts and engines increased 0.4 percent in 2005 following a 2.5-percent increase a year earlier. Prices for car parts were affected throughout the year by raw material prices and exchange rate fluctuations. Manufacturers passed on higher prices for rubber and steel, but an appreciating dollar against the euro and Japanese yen mitigated the raw material effect.

Consumer goods. Continuing a trend that began in 2003, the price index for consumer goods increased 0.7 percent in 2005 following a larger increase of 1.3 percent in 2004. Due to the makeup of this particular index which includes, among others, apparel, jewelry, household goods, and pharmaceuticals, prices were more sensitive to monthly exchange rate fluctuations and less sensitive to raw material costs such as steel and copper. Prices rose early in the year when businesses renegotiated contracts to reflect a weak U.S. dollar versus the Euro and Japanese yen. Higher prices for plastics and energy also added upward pressure on the price index.

Like computer and telecommunications equipment prices, prices for home entertainment equipment, and to a lesser degree recreational equipment, fell consistently throughout the course of the year. Production cost savings due to economies of scale along with strong competition drove prices in home entertainment equipment downward. In contrast, jewelry prices were stable early in the year and rose sharply near the end of 2005 due to rising gold prices. Growing inflation worries and uncertainty in the midst of ever rising energy costs caused investors to pour money into the gold market, thus increasing demand and raising prices. Higher demand for other consumer nondurables, in particular, pharmaceuticals, also increased prices in this category during 2005. Goods in this area, which are of an organic chemical origin, were sensitive to rising petroleum prices.

Foods, feeds, and beverages. Prices for imported foods, feeds, and beverages rose 5.4 percent in 2005 after an increase of 8.0 percent in 2004. This index has risen every year since 2002. Although the increase was steady throughout most of 2005, the index matched the largest ever monthly increase in March, rising 3.3 percent. Poor crop conditions due to wet weather in Mexico, which is where the majority of imported vegetables are grown, caused the large increase. Prices subsequently normalized in June, when the index fell 1.2 percent, the largest drop since a 1.2-percent decline in May 2003.

Locality of Origin price indexes. Similar to overall import prices, high energy prices influenced many of the Locality of Origin price indexes. In particular, energy prices led the increase in import prices from the Asian Near East region (commonly known as the Middle East), where crude oil carries a higher weight than any other published region. The price index for this region posted a 30.1-percent increase in 2005 after a 22.7-percent increase a year earlier. Although the Asian Near East region includes two of the United States largest suppliers of crude oil, Canada is actually the largest supplier. (See chart 3.) Import prices from other major suppliers of energy products rose as well, including Mexico and the EU. Mexico, as seen in chart 3, is the second largest supplier of crude oil to the United States. The Mexican price index rose 8.5 percent following a 4.0-percent increase in 2004. The increase in the EU price index slowed to 2.6 percent after a 7.0-percent increase a year earlier. Although the EU price index was affected by high energy prices, the appreciation of the dollar against the euro mitigated the effect.

Prices of products produced in regions from which the United States does not import energy products, such as East Asia, were less affected by high energy prices. Import prices from China fell 0.5 percent following a 1.0-percent decline in 2004. The Japanese price index fell 0.7 percent following a 1.3-percent increase in 2004 and was affected by the appreciation of the dollar against the Japanese yen. After depreciating 4.1 percent against the Japanese yen in 2004, the dollar appreciated 13.1 percent in 2005. Prices of products from Asian Newly Industrialized Countries declined 2.3 percent—a steeper decline compared with the 0.3-percent decline in 2004—and have declined annually since a 0.5-percent increase in 1995.

Export price trends

Agricultural goods. Prices of exported agricultural goods rose

Monthly Labor Review November 2006 7
Import and Export Price Indexes

Chart 3. Top 10 countries of origin for U.S. crude oil, 2005 totals


4.3 percent following a decrease of 4.5 percent in 2004. Movement in soybean prices led the index for much of the year. The record harvest in 2004 depressed soybean prices in early 2005, so even with a large harvest in 2005, prices were 8.8 percent higher than a year earlier. Soybean prices rose 18.3 percent in March, when the U.S. Department of Agriculture (USDA) indicated that farmers would plant fewer acres than in previous years, partly due to fears of Asian Soybean Rust.25 Also, drought conditions affecting the 2004–05 crop in South America added to concerns of possible lower world soybean supplies.26 Soybean prices then fell 10.5 percent in September due to good late-season weather in the United States, which boosted the harvest to a level second only to the record set in 2004.27

Hurricane Katrina had little impact on export agricultural prices. Grain exports through the Port of New Orleans were interrupted for 2 weeks as a direct result of storm damage, but because the duration of the closure was relatively short and exports were quickly rerouted to other ports, prices were largely unaffected.28 September export agricultural prices actually fell when the USDA raised its production forecasts for corn and soybeans.29

The poultry export market was deeply affected by anxiety related to avian influenza. Poultry demand fell sharply in Europe, especially in Russia, the United States biggest poultry customer, as consumers feared contracting avian influenza from poultry.30

Nonagricultural industrial supplies and materials. The export nonagricultural industrial supplies and materials price index rose 8.5 percent in 2005, which was roughly half of the advance seen in 2004. The majority of the upward movement was due to products that use energy products as an input, and many of these price increases were directly and indirectly influenced by hurricanes. Hurricane Katrina directly affected prices for plastic and chemical products because many plants located in the gulf region were forced to close for repairs. These closures reduced supplies and as a result, prices peaked in October and November. Supplies improved and prices normalized in December as plants reopened after completing repairs. In contrast, rising petroleum prices, combined with short-term shocks from hurricane damage, indirectly led to higher prices in further stages of production, especially for products using natural gas as an input.

Due to the global nature of the steel industry, export steel prices behaved much the same as import prices with similar demand pressures. Specifically, export steel prices declined 2.2 percent in 2005 after surging 53.1 percent a year earlier. In contrast, nonferrous metals prices continued to rise, increasing
19.0 percent in 2005 following a 24.8-percent advance in 2004. In particular, copper and aluminum prices saw gains which were driven, in part, by the influx of money into commodity markets from investment funds as well as industrial demand.\(^3\)

**Capital goods.** After a 0.7-percent increase in 2004, exported capital goods prices decreased 0.5 percent in 2005. As with imports, the decline in capital goods prices was largely due to the continuation of a long-term downward trend in prices for computers, peripherals and semiconductors, which fell 7.1 percent. Telecommunications equipment prices also played a role in the decline, falling 1.2 percent.

The price index for capital goods excluding computers, peripherals, and semiconductors, increased 2.1 percent for the second consecutive year, which was the largest annual increase since 1995. Similar to imports, strong demand for oil drilling equipment led to higher prices. Although strong demand existed for industrial and service machinery, higher raw material prices also played a role in the price increases for these products. Prices for electrical generating equipment were stable early in the year, then fell when the dollar appreciated against major foreign currencies.\(^3\)

**Automotive vehicles, parts and engines.** The price index for automotive vehicles, parts and engines rose 1.0 percent in 2005, which was less than the 1.1-percent increase in 2004, due to falling sales and lower demand. The indexes for both passenger cars and trucks increased 0.7 percent after holding steady during the first half of the year.

However, prices for automobile parts increased steadily throughout 2005 and ended 1.1 percent higher than a year earlier. This increase was driven by higher raw material prices, especially for steel, rubber, and energy. Similar to the imports, manufacturers of parts for export had absorbed much of the increases in raw material costs, especially the jump in steel prices during 2004, but began passing on some of those extra costs to vehicle manufacturers.\(^3\)

**Consumer goods.** Consumer goods increased 0.7 percent in 2005. This was the third consecutive annual advance, although less than the 1.3-percent rise in 2004. Prices for apparel, consumer nondurables, and household goods fluctuated throughout the year and closely followed the movement of the dollar against major foreign currencies. Recreational equipment prices, however, were stable during the first half of the year, then increased during the remaining 6 months due to higher raw materials costs, namely plastics, fiberglass, and resins. Consumer electronics prices, however, declined throughout the year, which prevented the aggregate from increasing more than it did. Prices declined for electronic products in this index because of competitive pressures in the market.

**Services price trends**

The IPP currently publishes several indexes which capture transactions of transportation services between parties in the United States and abroad. Air passenger fares were driven in part by exchange rate fluctuations—a deviation from the historical trend of moving in response to seasonal demand factors. The price index for export air passenger fares, which measures changes in fares paid to U.S. carriers by foreign residents for international travel, ended the year down 4.3 percent and was primarily affected by the U.S. dollar weakening against the Canadian dollar. The weaker dollar had the opposite effect on the import side where the price index for import air passenger fares, which measures changes in fares paid to foreign carriers by U.S. residents for international travel, rose 4.1 percent. Fares on Canadian routes, both inbound and outbound, increased steadily throughout 2005, and bore the brunt of the weakening U.S. dollar versus the Canadian dollar. Canadian routes have less competition than routes to other locations; therefore, airlines were able to pass on rising fuel costs more easily to passengers on these routes.

The price index for export air freight, which measures changes in rates paid for the transportation of freight from the United States to foreign countries on U.S. air carriers, rose 5.6 percent, compared with the 11.2-percent increase in 2004. Strong demand and rising fuel surcharges drove the increase in rates for export air freight. The price index for import air freight, which measures changes in rates paid for the transportation of freight from foreign countries to the United States on foreign air carriers, rose 1.7 percent in 2005 following an increase of 10.4 percent in 2004.

Rising fuel costs also affected rates for ocean liner freight. Inbound ocean liner freight rates rose 3.3 percent in 2005 due to higher fuel surcharges along with consistent demand. The inbound crude oil tanker index retreated from the peaks of late 2004, but rates rose in the fourth quarter due to hurricanes in the southern United States. Overall, rates fell 17.2 percent after doubling in 2004. This slight correction in rates coincided with a 0.6-percent decrease in total crude oil imports, which increased 4.7 percent in 2004. Nearly steady crude oil imports, and not a sharp decline, prevented a larger correction in rates.

**Notes**


2. The weights used in calculating the import and export price indexes are updated annually, though with a 2-year lag. Thus, the 2005 import and export indexes were calculated with weights based on trade
dollar values from 2003. For this reason, this figure was based on 2003 trade dollar values.


4 The relationship between U.S. and Canadian currencies can affect import and export prices because Canadian goods represented 17.2 percent of all imports to the United States in 2005, based on trade dollar value, more than any other nation. Canada also consistently ranks as the top trading partner of the United States. Data were obtained from the United States Census Bureau’s Foreign Trade Statistics. On the Internet at http://www.census.gov/foreign-trade/statistics/highlights/top/top0512.html (visited June 21, 2006).

5 The Import and Export Price Indexes to not track price movements for military goods, artwork, used items, charity donations, railroad equipment, items leased for less than a year, rebuilt and repaired items, and selected exports (custom-made equipment).


13 Ibid.


16 Ibid, December 2005 (review for September 2005). As a result, prices for refined products rose 22.9 percent in September.


20 According to data obtained from the United States Census Bureau’s Foreign Trade Statistics, the dollar value of imported vehicles and parts increased nearly 5 percent in 2005 from a year earlier.


23 According to year-2003 weights, 60 percent of imports—in dollar value terms—from the Asian Near East region (Bahrain, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Syria, United Arab Emirates and Yemen) were crude oil and natural gas, whereas crude oil and natural gas accounted for only 15 percent of imports from Canada.

24 The Asia Newly Industrialized Countries region includes Hong Kong, Singapore, South Korea, and Taiwan.

25 Asian Soybean Rust is a plant disease caused by two different fungal species. The fungus spores are carried by the wind and can infect 20 plant species in the United States, of which soybean is the most commercially significant. Yield loss is the main consequence of the disease because the lesions caused by the fungus lead to premature defoliation. For more information, visit http://lugar.senate.gov/reports/RL32225_soy.pdf (visited July 6, 2006).

26 Oil Crops Outlook (U.S. Department of Agriculture, April 2005).


32 Businesses are expanding the practice of pricing their products in foreign currencies in an attempt to hedge against adverse exchange rate fluctuations. As a result, an increasing number of prices collected in the IPP’s surveys are originally quoted in foreign currencies. Because the price indexes published by the IPP are calculated using dollar prices, these prices must be converted into dollars. During 2005, 3.66 percent of all items in the Export Price Index were priced in a foreign currency. The consumer goods (excluding automobiles) category has the highest proportion, 7.62 percent, of all export end-use product categories. The foreign currencies used most often for exports were the Canadian dollar, euro, yen and pound. On the import side, 5.45 percent of all items were priced in a foreign currency. The foreign currencies used most often for imports were the Canadian dollar, euro, yen, British pound, and Swiss franc.