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Inflation Watch

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On Thursday, October 11, the Bureau of Labor Statistics released the Producer Price Indexes for the month of September 2002. On Wednesday, October 18, the Bureau of Labor Statistics released the Consumer Price Indexes for the month of September 2002, and the Federal Reserve Bank of Cleveland released the Median CPI for the month of September 2002.

The following tables contain statistics on the Consumer Price Index (including the Median CPI), the Producer Price Index, and various sub-indexes and special indexes of both.

Additional Information

To see charts for all the indexes shown in the attached tables, go to the subscriber area of our web site (<http://www.biancoresearch.com>) and click on "Inflation Watch."

Consumer Price Inflation

The Consumer Price Index rose 1.51% from September 2001 to September 2002.

Within the eight major sub-groups:

Four are growing faster than the base rate. These groups comprise 56.82% of the index:

- Medical Care (4.65%)
- Other goods and services (3.20%)
- Education and communication (2.74%)
- Housing (2.32%)

Four are growing slower than the base rate. These groups comprise only 43.18% of the index:

- Food and beverages (1.32%)
- Recreation (0.95%)
- Transportation (-0.96%)
- Apparel (-1.75%)

The commonly watched special index, all items less food and energy (or "core rate"), rose 2.24% in the September to September period.

Many prefer to watch the Federal Reserve Bank of Cleveland's Median CPI as a better measure of the "core rate." This index rose 3.35% September over September.

Of special interest is the all items less energy index, which accounts for 93.424% of the all items index. It rose 2.11% September over September.

Two other special indices declined in the September over September period. The energy index **fell 4.90%** while the energy commodities index **declined 6.97%**.

Producer Price Inflation

In the twelve months ending September 2002, the Producer Price Index for Finished Goods **declined 1.77%**, the Producer Price Index for Intermediate Goods **decreased 0.31%**, the Producer Price Index for Crude materials **rose 0.93%** and the Producer Price Index for Commodities **fell 0.98%**.

Chart 1 – Targeted Fed Funds Rate vs. Core CPI

Note that, since October 2001, annualized "Core" CPI has been above the targeted fed funds rate. The last time this occurred was 1993. Periods in which Core CPI is higher than the targeted fed funds rate normally do not last very long.

Chart 2 – Median CPI vs. All Urban CPI

The All Urban Consumer Price Index (SA) is 1.75% below the Median Consumer Price Index. Such divergences in the past have been resolved by the All Urban Index moving up to the Median.

Inflation Watch

	Annualized through September 2002							Index Weights as of 12/31/2001
	Sep 2002	6 Months	1 Year	3 Years	5 Years	10 Years	20 Years	
Consumer Price Index								
All Urban Consumers								
All Items (NSA)	0.17%	2.71%	1.51%	2.54%	2.34%	2.51%	3.12%	100.000
All Items (SA)	0.17%	2.48%	1.52%	2.54%	2.32%	2.51%	3.13%	100.000
Food and beverages (SA)	0.23%	0.45%	1.32%	2.33%	2.25%	2.39%	3.00%	16.393
Housing (SA)	0.11%	2.47%	2.32%	3.17%	2.83%	2.75%	3.11%	40.516
Apparel-SA	0.08%	-3.61%	-1.75%	-1.92%	-1.41%	-0.65%	1.17%	4.242
Transportation (SA)	0.26%	4.83%	-0.96%	1.67%	1.28%	1.97%	2.30%	16.639
Medical care (SA)	0.31%	4.75%	4.65%	4.48%	4.11%	4.12%	5.72%	5.995
Recreation (SA)	0.00%	0.19%	0.95%	1.45%	1.19%	N/A	N/A	5.909
Education and communication (SA)	-0.18%	3.98%	2.74%	2.41%	1.91%	N/A	N/A	5.397
Other goods and services (SA)	0.37%	5.98%	3.20%	4.19%	5.54%	4.80%	5.99%	4.909
Special indexes								
All items less food (SA)	0.17%	2.93%	1.57%	2.57%	2.34%	2.53%	3.16%	84.597
All items less energy (SA)	0.11%	1.94%	2.11%	2.45%	2.36%	2.56%	3.35%	93.424
All items less food and energy (SA)	0.10%	2.12%	2.24%	2.47%	2.36%	2.59%	3.44%	78.020
Energy (SA)	0.73%	11.36%	-4.90%	3.66%	2.00%	1.82%	1.07%	6.576
Energy commodities (SA)	1.00%	21.36%	-6.97%	3.78%	2.46%	2.07%	0.80%	2.855
Median CPI	0.23%	2.99%	3.26%	3.35%	3.09%	3.05%	3.50%	100.000
Producer Price Index								
Commodities								
All (NSA)	0.38%	3.42%	-0.98%	1.03%	0.70%	1.13%	1.40%	100.000
Industrial (NSA)	0.45%	4.49%	-0.67%	1.05%	0.88%	1.19%	1.45%	86.213
Farm Products (NSA)	0.08%	-3.00%	-3.13%	0.68%	-0.40%	0.73%	1.11%	13.787
Finished Goods								
All (SA)	0.07%	-1.00%	-1.77%	1.01%	1.03%	1.14%	1.61%	100.000
Finished consumer goods (SA)	0.07%	-1.14%	-1.90%	1.25%	1.35%	1.30%	1.63%	72.937
Capital equipment (SA)	0.00%	-1.14%	-1.00%	0.29%	0.07%	0.70%	1.60%	27.063
Intermediate Goods								
All (SA)	0.47%	3.83%	-0.31%	1.11%	0.54%	1.12%	1.28%	100.000
Manufacturing (SA)	0.24%	3.06%	0.24%	0.42%	-0.20%	0.70%	1.21%	47.159
Construction (SA)	0.13%	2.13%	0.93%	0.60%	0.74%	1.84%	2.11%	13.125
Processed fuels and lubricants (SA)	2.08%	10.54%	-5.39%	3.26%	2.24%	1.31%	-0.07%	14.837
Containers (SA)	0.73%	1.46%	-0.07%	1.60%	2.45%	1.82%	2.13%	3.429
Supplies (SA)	0.14%	1.89%	0.65%	1.27%	0.49%	1.27%	1.68%	21.450
Crude materials								
All (SA)	0.65%	9.89%	0.93%	0.43%	0.04%	0.55%	0.45%	100.000
Foodstuffs and feedstuffs (SA)	2.02%	-3.47%	-7.26%	0.27%	-1.77%	-0.29%	0.14%	46.246
Nonfood except fuel (SA)	1.90%	24.67%	3.97%	1.57%	1.22%	0.86%	0.42%	32.086
Fuel (SA)	-3.82%	16.55%	12.20%	-0.56%	1.73%	1.82%	N/A	21.668

Data Sources: Bureau of Labor Statistics (<http://stats.bls.gov/datahome.htm>)

Federal Reserve Bank of Cleveland (<http://www.clev.frb.org/Research/index.htm#cpi>)

NSA = Not seasonally adjusted

SA = Seasonally adjusted

Inflation Watch

	12 Months through September 2002	10 Year High ¹	Date	10 Year Low ¹	Date
Consumer Price Index					
All Urban Consumers					
All Items (NSA)	1.51%	3.76%	Mar 2000	1.07%	Jun 2002
All Items (SA)	1.52%	3.73%	Jun 2000	1.07%	Jun 2002
Food and beverages (SA)	1.32%	4.27%	Nov 1996	1.26%	Aug 2002
Housing (SA)	2.32%	4.80%	Jan 2001	1.87%	Jun 2002
Apparel-SA	-1.75%	2.52%	Apr 1993	-3.88%	Jan 2002
Transportation (SA)	-0.96%	9.23%	Mar 2000	-4.31%	Feb 2002
Medical care (SA)	4.65%	6.97%	Oct 1992	2.52%	Oct 1997
Recreation (SA)	0.95%	3.39%	Jul 1996	0.30%	Sep 1999
Education and communication (SA)	2.74%	4.35%	Jan 1995	0.30%	Jun 1999
Other goods and services (SA)	3.20%	10.42%	Jan 1999	1.77%	Mar 1994
Special indexes					
All items less food (SA)	1.57%	4.06%	Mar 2000	0.85%	Feb 2002
All items less energy (SA)	2.11%	3.27%	Feb 1993	1.91%	Jan 2000
All items less food and energy (SA)	2.24%	3.58%	Feb 1993	1.84%	Aug 1999
Energy (SA)	-4.90%	24.08%	Mar 2000	-15.57%	Feb 2002
Energy commodities (SA)	-6.97%	52.34%	Mar 2000	-24.49%	Dec 2001
Median CPI	3.26%	4.01%	Nov 2001	2.21%	Dec 1999
Producer Price Index					
Commodities					
All (NSA)	-0.98%	9.12%	Jan 2001	-8.21%	Jan 2002
Industrial (NSA)	-0.67%	9.92%	Jan 2001	-9.45%	Jan 2002
Farm Products (NSA)	-3.13%	24.85%	May 1996	-14.09%	Jul 1997
Finished Goods					
All (SA)	-1.77%	4.81%	Jan 2001	-2.74%	May 2002
Finished consumer goods (SA)	-1.90%	6.10%	Jan 2001	-3.48%	May 2002
Capital equipment (SA)	-1.00%	2.60%	Nov 1995	-1.00%	Sep 2002
Intermediate Goods					
All (SA)	-0.31%	6.83%	May 1995	-4.86%	Feb 2002
Manufacturing (SA)	0.24%	8.65%	Apr 1995	-3.26%	Feb 2002
Construction (SA)	0.93%	5.33%	Apr 1995	-0.73%	Mar 2001
Processed fuels and lubricants (SA)	-5.39%	28.15%	Mar 2000	-20.56%	Jan 2002
Containers (SA)	-0.07%	18.56%	Jul 1995	-9.00%	Nov 1996
Supplies (SA)	0.65%	4.98%	Dec 1995	-1.40%	Sep 1998
Crude materials					
All (SA)	0.93%	55.10%	Jan 2001	-39.75%	Jan 2002
Foodstuffs and feedstuffs (SA)	-7.26%	26.06%	May 1996	-14.54%	Jul 1997
Nonfood except fuel SA)	3.97%	62.59%	Feb 2000	-29.01%	Nov 2001
Fuel (SA)	12.20%	223.46%	Jan 2001	-67.47%	Jan 2002

Data Sources: Bureau of Labor Statistics (<http://stats.bls.gov/datahome.htm>)

Federal Reserve Bank of Cleveland (<http://www.clev.frb.org/Research/index.htm#cp>)

NSA = Not seasonally adjusted

SA = Seasonally adjusted

¹ Education and communication Index started January 1994

¹ Recreation Index started January 1994

Chart 1

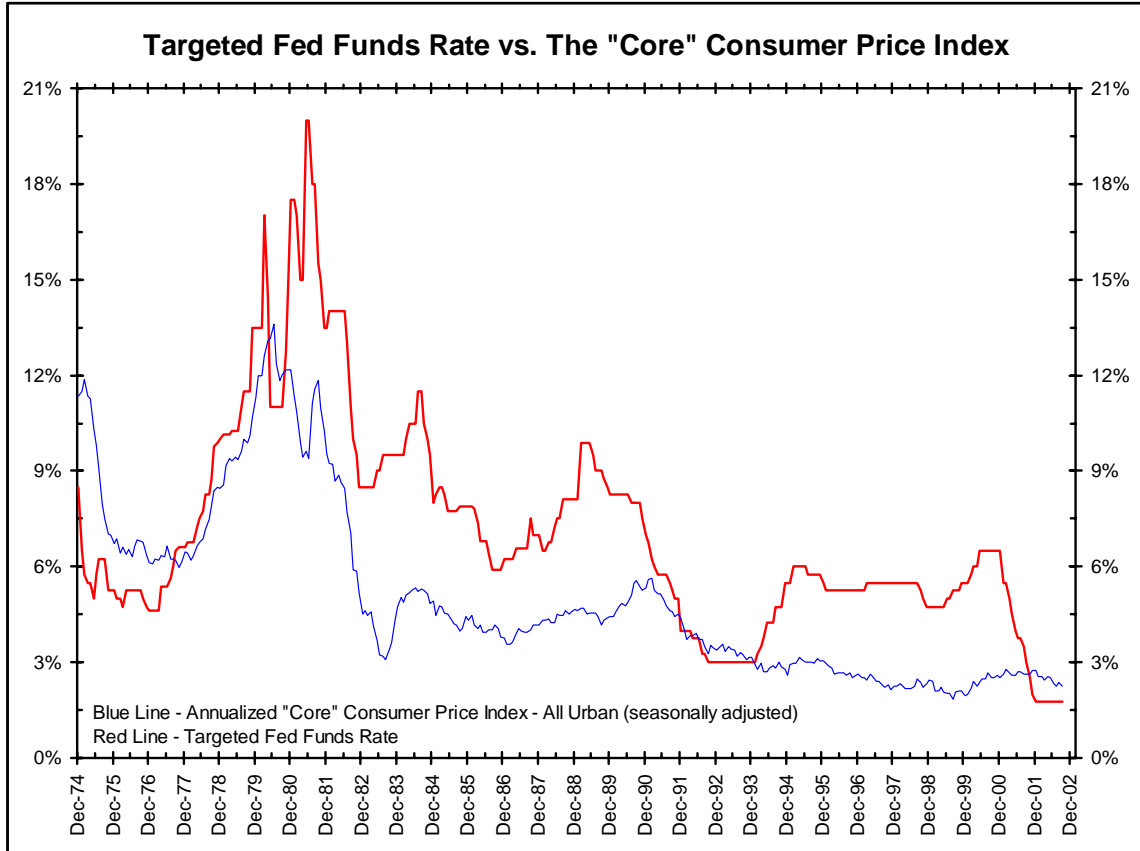
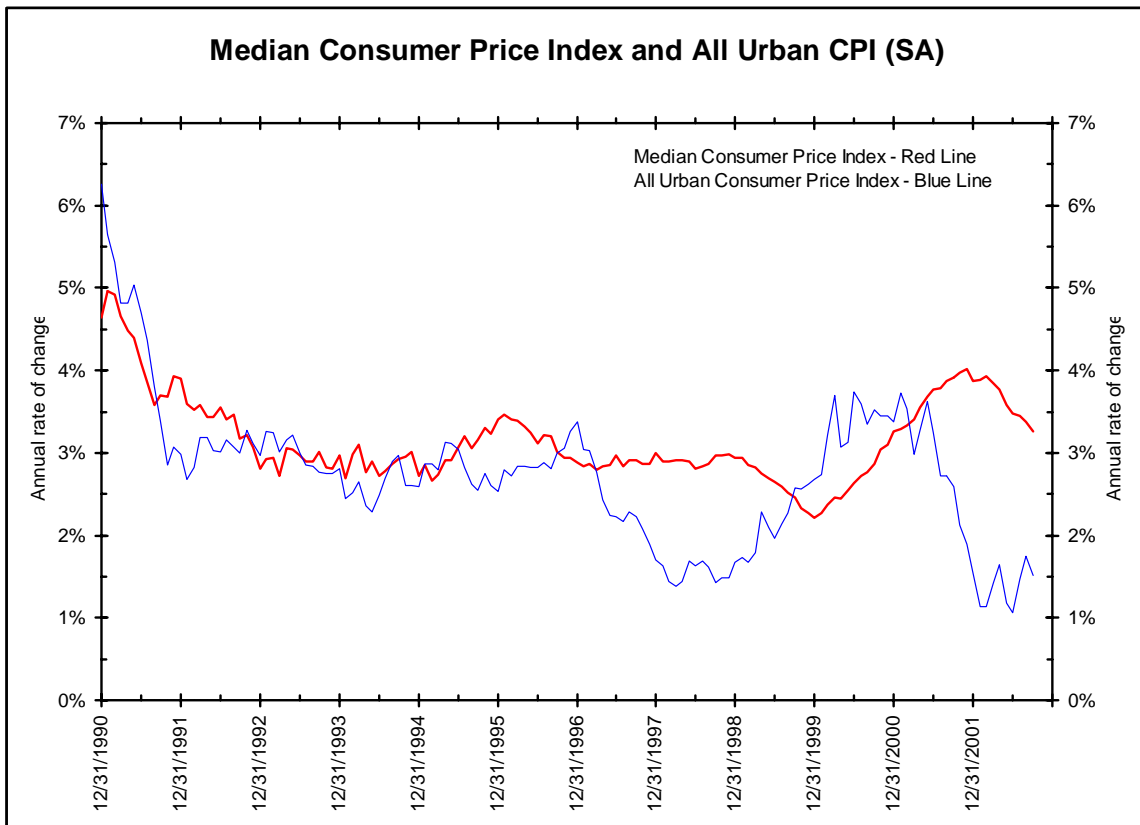


Chart 2



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