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INFLATION WATCH

An Update of Producer Price Inflation and Consumer Price Inflation
February 20, 2002

On Friday, February 15, the Bureau of Labor Statistics released the Producer Price Indexes for the month of January 2002. On Wednesday, February 20, the Bureau of Labor Statistics released the Consumer Price Indexes for the month of January 2002, and the Federal Reserve Bank of Cleveland released the Median CPI for the month of January 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 1.14% from January 2001 to January 2002. Within the eight major sub-groups, six -- medical care (4.68%); other goods and services (4.10%); education and communication (3.08%); food and beverages (2.87%), housing (2.12%) and recreation (1.54%) are growing faster than the base rate, and two -- apparel (-3.88%) and transportation (-3.93%) are growing slower than the base rate.

The commonly watched special index, all items less food and energy (or "core rate"), rose 2.56% in the January to January 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 3.88% January over January. Of special interest is the all items less energy index which accounts for 93.424% of the all items index. It rose 2.65% January over January.

The year over year growth rate of the energy index dropped from the month earlier period, while the energy commodities index rose. The January 2001

to January 2002 **decrease** for energy was **15.34%**, while energy commodities **declined 22.65%**.

Producer Price Inflation

In the twelve months ending January 2002, the Producer Price Index for Finished Goods **declined 2.68%**, the Producer Price Index for Intermediate Goods **decreased 4.77%**, the Producer Price Index for Crude materials **fell 40.29%** and the Producer Price Index for Commodities **fell 8.21%**.

It's All About Energy

The favorable inflation numbers appear to be a function of falling energy prices. Take out energy prices and the inflation picture is not nearly as favorable. Consider:

Chart 1 – Median CPI vs. Overall CPI

This chart shows the difference between the Median CPI and All Urban CPI. These series have radically different trends. This suggests that "core CPI" is not only in an uptrend, but also much higher than overall CPI (The Cleveland Federal Reserve developed Median CPI as another "core" CPI measure).

Chart 2 – CPI "less energy" vs. Overall CPI

This chart shows a popular version of "core" CPI (less energy) and All Urban CPI. Like the Median CPI chart above, this "core" CPI is near a multi-year high and well above overall CPI. While Energy accounts for only 6.57% of CPI, its extreme reading of -15.34% is having a big impact on overall CPI.

Chart 3 – PPI All Commodities

This chart shows the year-over year change in PPI All Commodities. This index is at a 60+ year low. "Fuels and related products & power" make up 14.2% of this Index.

Chart 4 – PPI All Commodities

This chart shows the year-over year change in PPI finished goods. This index is at a 50+ year low. "Fuels and related products & power" make up 13.8% of this Index.

Inflation Watch

	Annualized through January 2002							Index Weights as of 12/31/01
	Jan 2002	6 Months	1 Year	3 Years	5 Years	10 Years	20 Years	
Consumer Price Index								
All Urban Consumers								
All Items (NSA)	0.23%	-0.45%	1.14%	2.53%	2.17%	2.52%	3.20%	100.000
All Items (SA)	0.17%	0.34%	1.14%	2.52%	2.17%	2.53%	3.21%	100.000
Food and beverages (SA)	0.34%	2.08%	2.87%	2.47%	2.38%	2.51%	3.10%	16.393
Housing (SA)	0.17%	1.59%	2.12%	3.23%	2.80%	2.75%	3.23%	40.516
Apparel-SA	-0.72%	-3.91%	-3.88%	-1.86%	-1.27%	-0.54%	1.25%	4.242
Transportation (SA)	0.27%	-6.14%	-3.93%	1.88%	0.48%	1.82%	2.19%	16.639
Medical care (SA)	0.47%	5.05%	4.68%	4.25%	3.80%	4.25%	5.94%	5.995
Recreation (SA)	0.19%	1.92%	1.54%	1.39%	1.40%	N.A.	N.A.	5.909
Education and communication (SA)	0.28%	2.86%	3.08%	1.94%	1.90%	N.A.	N.A.	5.397
Other goods and services (SA)	0.28%	0.98%	4.10%	3.91%	5.43%	4.86%	6.16%	4.909
Special indexes								
All items less food (SA)	0.17%	0.00%	0.85%	2.56%	2.16%	2.53%	3.24%	84.597
All items less energy (SA)	0.16%	2.41%	2.65%	2.39%	2.35%	2.63%	3.48%	93.424
All items less food and energy (SA)	0.16%	2.48%	2.56%	2.35%	2.34%	2.64%	3.58%	78.020
Energy (SA)	0.88%	-22.23%	-15.34%	4.67%	-0.14%	1.22%	0.64%	6.576
Energy commodities (SA)	2.51%	-32.20%	-22.65%	5.36%	-1.82%	0.59%	-0.27%	2.855
Median CPI	0.31%	3.66%	3.88%	3.14%	3.04%	2.98%	3.61%	100.000
Producer Price Index								
Commodities								
All (NSA)	0.39%	-7.21%	-8.21%	1.50%	-0.19%	1.06%	1.28%	100.000
Industrial (NSA)	0.39%	-7.44%	-9.45%	1.68%	-0.14%	1.13%	1.31%	86.213
Farm Products (NSA)	0.81%	-5.42%	-0.72%	0.49%	-0.45%	0.73%	1.14%	13.787
Finished Goods								
All (SA)	0.15%	-3.39%	-2.68%	1.52%	0.71%	1.23%	1.67%	100.000
Finished consumer goods (SA)	0.22%	-3.94%	-3.43%	1.91%	0.92%	1.36%	1.67%	72.937
Capital equipment (SA)	-0.07%	-1.14%	-0.36%	0.41%	0.09%	0.83%	1.74%	27.063
Intermediate Goods								
All (SA)	-0.08%	-5.78%	-4.77%	1.25%	-0.14%	1.04%	1.13%	100.000
Manufacturing (SA)	-0.16%	-4.35%	-3.04%	0.19%	-0.60%	0.61%	1.11%	47.159
Construction (SA)	0.20%	-0.79%	0.40%	0.77%	0.72%	1.88%	2.08%	13.125
Processed fuels and lubricants (SA)	-0.44%	-22.59%	-20.21%	5.38%	-0.90%	1.09%	-0.61%	14.837
Containers (SA)	0.20%	-1.30%	-0.33%	3.31%	2.06%	1.79%	2.17%	3.429
Supplies (SA)	0.07%	-0.58%	-0.50%	1.06%	0.41%	1.26%	1.69%	21.450
Crude materials								
All (SA)	3.66%	-23.38%	-40.29%	2.81%	-4.95%	0.18%	-0.04%	100.000
Foodstuffs and feedstuffs (SA)	3.99%	-11.33%	-5.22%	-0.52%	-2.46%	-0.27%	0.12%	46.246
Nonfood except fuel (SA)	2.18%	-34.33%	-22.82%	3.66%	-5.73%	-0.37%	-1.06%	32.086
Fuel (SA)	4.76%	-26.40%	-67.95%	8.13%	-7.95%	1.72%	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#cp1>)

NSA = Not seasonally adjusted

SA = Seasonally adjusted

Inflation Watch

	12 Months through January 2002	10 Year High ¹	Date	10 Year Low ¹	Date
Consumer Price Index					
All Urban Consumers					
All Items (NSA)	1.14%	3.76%	Mar 2000	1.14%	Jan 2002
All Items (SA)	1.14%	3.73%	Jun 2000	1.14%	Jan 2002
Food and beverages (SA)	2.87%	4.27%	Nov 1996	0.44%	Jun 1992
Housing (SA)	2.12%	4.80%	Jan 2001	2.06%	Feb 1998
Apparel-SA	-3.88%	3.39%	Mar 1992	-3.88%	Jan 2002
Transportation (SA)	-3.93%	9.23%	Mar 2000	-3.94%	Dec 2001
Medical care (SA)	4.68%	7.85%	Mar 1992	2.52%	Oct 1997
Recreation (SA)	1.54%	3.39%	Jul 1996	0.30%	Sep 1999
Education and communication (SA)	3.08%	4.35%	Jan 1995	0.30%	Jun 1999
Other goods and services (SA)	4.10%	10.42%	Jan 1999	1.77%	Mar 1994
Special indexes					
All items less food (SA)	0.85%	4.06%	Mar 2000	0.85%	Jan 2002
All items less energy (SA)	2.65%	3.44%	Mar 1992	1.91%	Jan 2000
All items less food and energy (SA)	2.56%	3.89%	May 1992	1.84%	Aug 1999
Energy (SA)	-15.34%	24.08%	Mar 2000	-15.34%	Jan 2002
Energy commodities (SA)	-22.65%	52.34%	Mar 2000	-24.49%	Dec 2001
Median CPI	3.88%	4.01%	Nov 2001	2.21%	Dec 1999
Producer Price Index					
Commodities					
All (NSA)	-8.21%	9.12%	Jan 2001	-8.21%	Jan 2002
Industrial (NSA)	-9.45%	9.92%	Jan 2001	-9.45%	Jan 2002
Farm Products (NSA)	-0.72%	24.85%	May 1996	-14.09%	Jul 1997
Finished Goods					
All (SA)	-2.68%	4.81%	Jan 2001	-2.68%	Jan 2002
Finished consumer goods (SA)	-3.43%	6.10%	Jan 2001	-3.43%	Jan 2002
Capital equipment (SA)	-0.36%	2.60%	Nov 1995	-0.72%	Jan 1998
Intermediate Goods					
All (SA)	-4.77%	6.83%	May 1995	-4.77%	Jan 2002
Manufacturing (SA)	-3.04%	8.65%	Apr 1995	-3.04%	Dec 1998
Construction (SA)	0.40%	5.33%	Apr 1995	-0.73%	Mar 2001
Processed fuels and lubricants (SA)	-20.21%	28.15%	Mar 2000	-20.21%	Jan 2002
Containers (SA)	-0.33%	18.56%	Jul 1995	-9.00%	Nov 1996
Supplies (SA)	-0.50%	4.98%	Dec 1995	-1.40%	Sep 1998
Crude materials					
All (SA)	-40.29%	55.10%	Jan 2001	-40.29%	Jan 2002
Foodstuffs and feedstuffs (SA)	-5.22%	26.06%	May 1996	-14.54%	Jul 1997
Nonfood except fuel SA)	-22.82%	62.59%	Feb 2000	-27.16%	Nov 2001
Fuel (SA)	-67.95%	223.46%	Jan 2001	-67.95%	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#cpu>)

NSA = Not seasonally adjusted

SA = Seasonally adjusted

¹ Education and communication Index started January 1994

¹ Recreation Index started January 1994

Chart 1

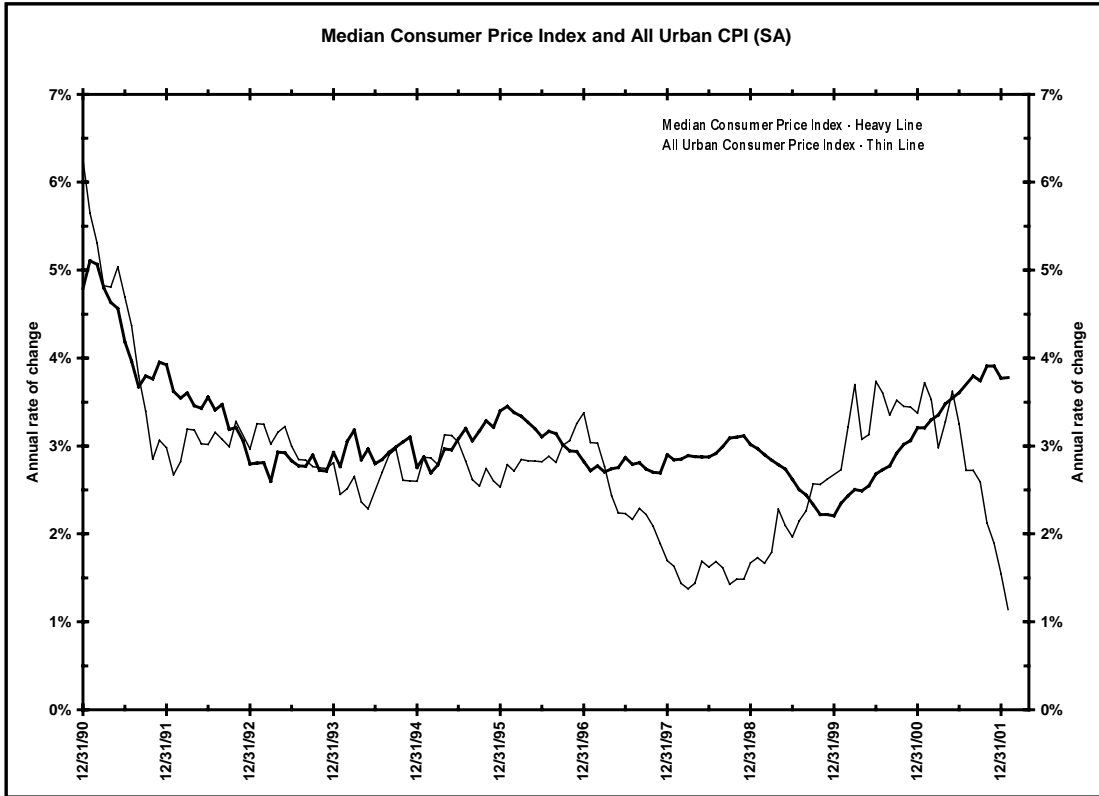


Chart 2

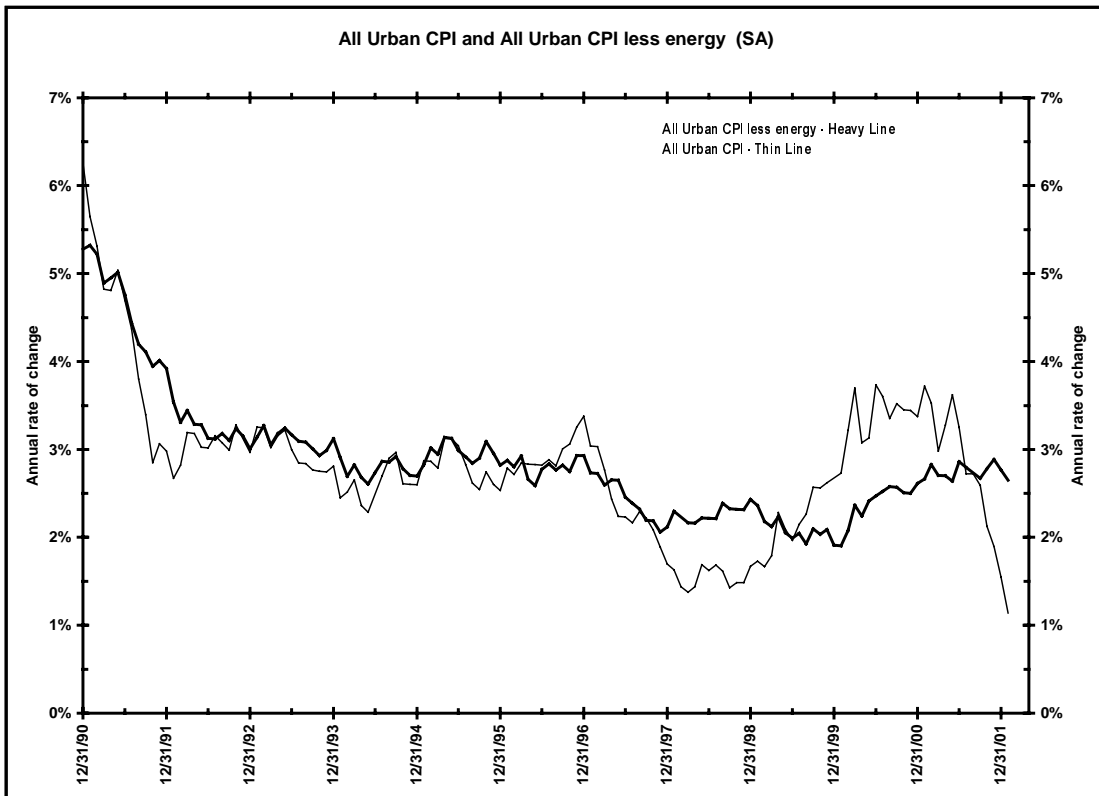


Chart 3

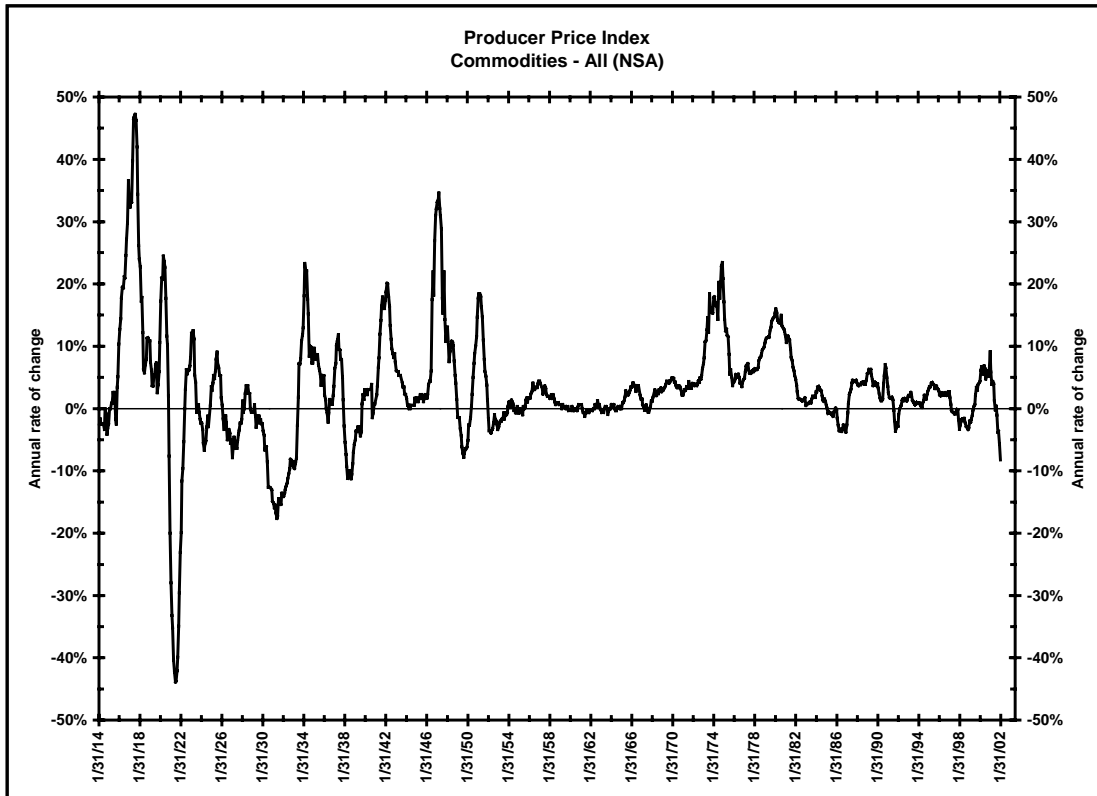
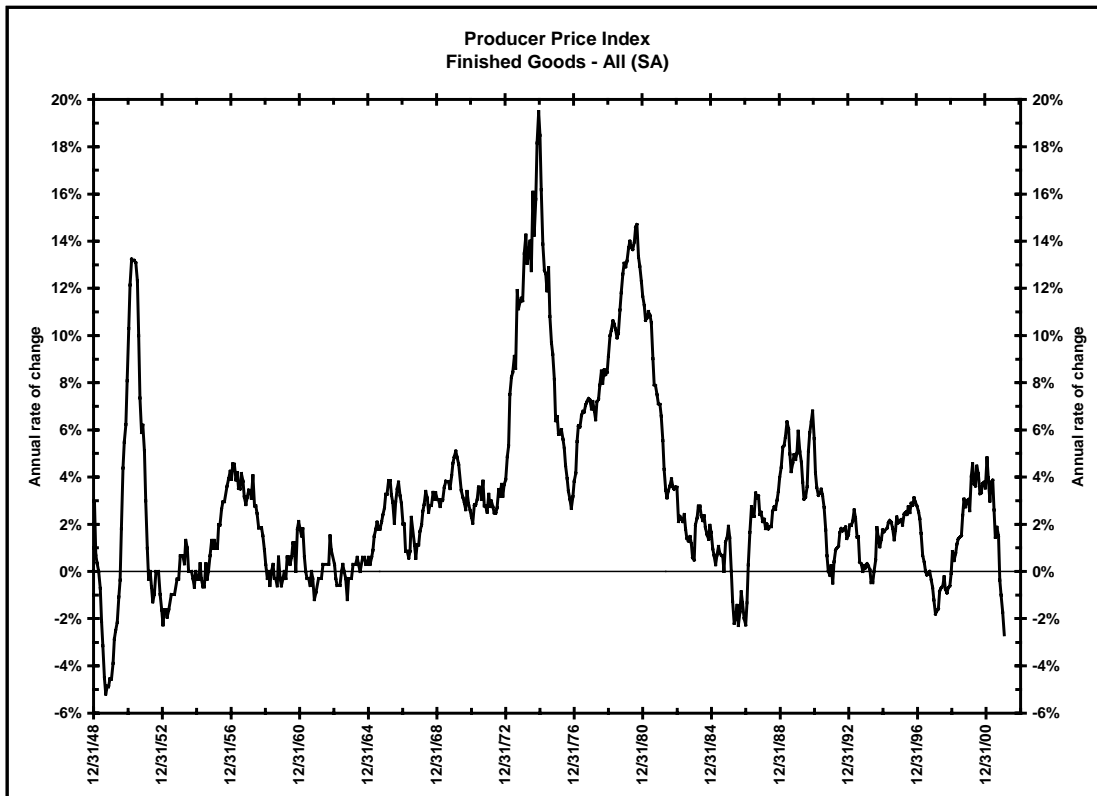


Chart 4



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