

Bianco Research L.L.C.

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Inflation Watch

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On Thursday, July 15, the Bureau of Labor Statistics released the Producer Price Indexes for the month of June 2004. On Friday, June 16, the Bureau of Labor Statistics released the Consumer Price Indexes for the month of June 2004.

**** New * This month, we have added the Personal Consumption Indexes to our Inflation Watch. Due to the release schedule of these statistics, the PCE tables/charts will lag one month at the time of the initial release of our Inflation Watch. We will update these statistics when they are released near the end of the month.***

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

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 **3.27%** from June 2003 to June 2004.

Within the eight major sub-groups:

Three are growing faster than the base rate. These groups comprise **38.34%** of the index:

- Transportation (5.36%)
- Medical Care (4.66%)
- Food and Beverages (3.66%)

Five are growing slower than the base rate. These groups comprise only **61.66%** of the index:

- Housing (2.60%)
- Education and communication (2.29%)
- Other Goods and Services (1.95%)
- Recreation (1.21%)
- Apparel (0.75%)

The commonly watched special index, all items less food and energy (or "core rate"), rose **1.87%** in the June to June 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 **2.32%** June over June.

Two other special indices are worth notice in the June over June period. The energy index rose **16.37%** while the energy commodities index rose **30.64%**.

Personal Consumption Expenditures

In the year ending **June 2004**, the PCE Index increased 2.70%. The "Core" PCE Index (less food and energy) increased by 1.77%. Also of interest is the difference between the 12-month growth rate of Durable Goods (-1.27%), Non-Durable Goods (4.61%), and Services (2.64%). Most of this difference can be attributed to the hedonic adjustments incorporated in Durable Goods.

Producer Price Inflation

In the twelve months ending June 2004, the Producer Price Index for Finished Goods **increased 4.14%**, the Producer Price Index for Intermediate Goods **increased 6.91%**, the Producer Price Index for Crude materials **rose 18.78%** and the Producer Price Index for Commodities **rose 6.59%**.

Charts – Comparing CPI and PCE

The charts on the next page compare the year-over-year changes of CPI and PCE. They show that PCE typically has a year-over-year change that is less than CPI (which might account for why the Fed prefers this measure). However, even the PCE indices have moved sharply higher in recent months. Like CPI, the PCE indices have 6-month and 3-month annualized growth rates well above their year-over-year changes (meaning inflation is still accelerating).

All these numbers are well above the current Federal Funds target rate of 1.25%. So, no matter how inflation is measured, it is well above the funds rate and suggests the Fed will be raising rates for some time to come.

Chart 1

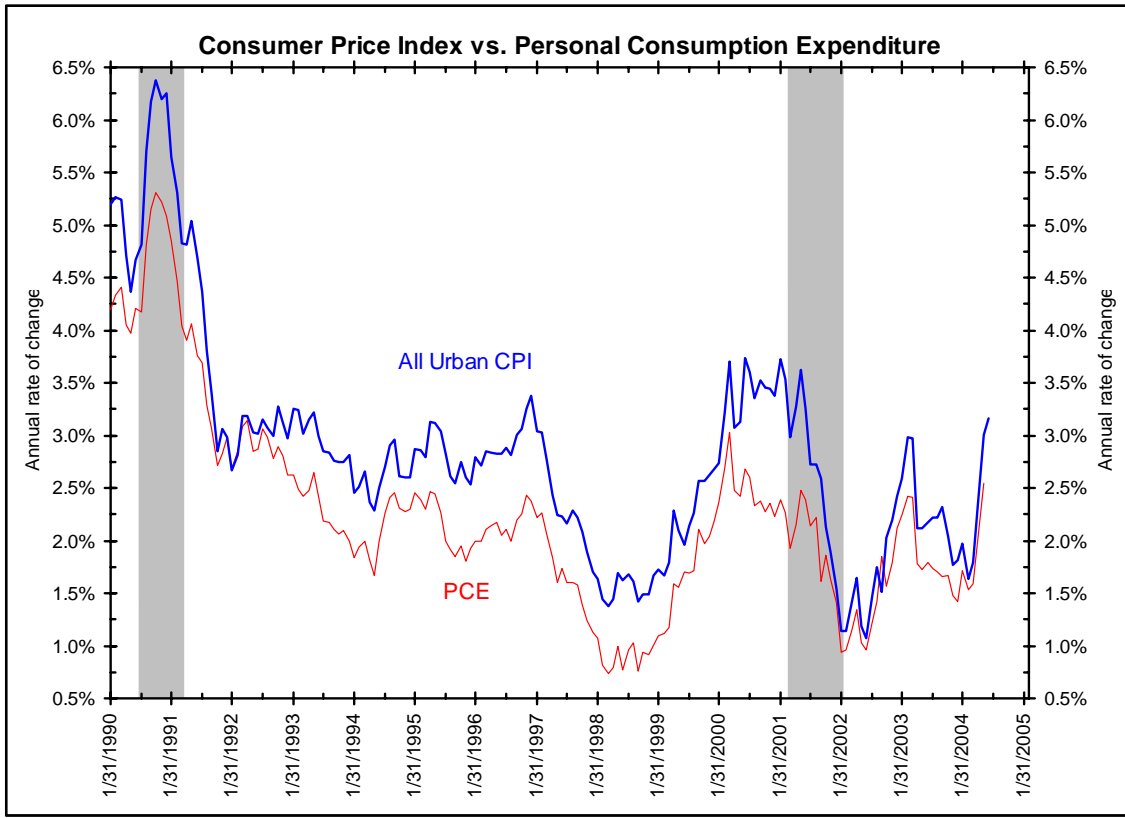
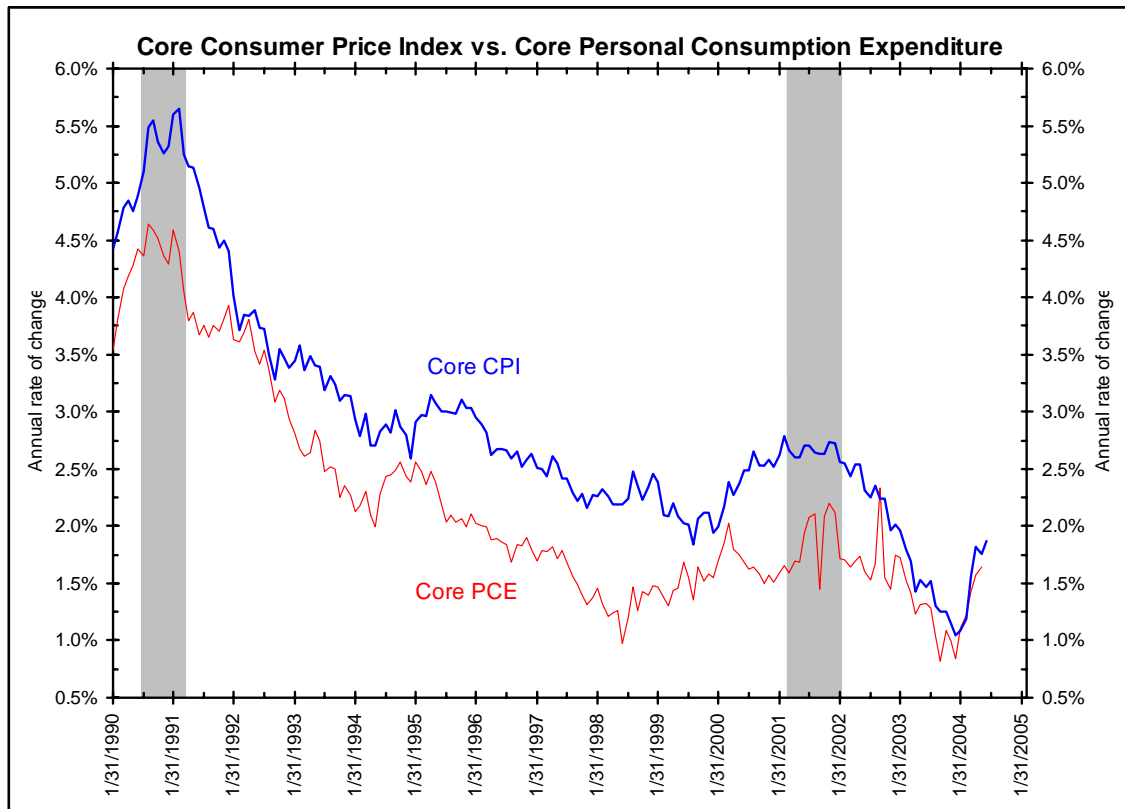


Chart 2



Consumer Price Index

	Annualized through June 2004								Index Weights as of 12/31/2003
	Jun 2004	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years	20 Years	
Consumer Price Index									
All Urban Consumers									
All Items (NSA)	0.32%	5.00%	5.95%	3.27%	2.14%	2.68%	2.51%	3.07%	100.000
All Items (SA)	0.32%	4.78%	4.93%	3.16%	2.13%	2.67%	2.50%	3.06%	100.000
Food and beverages (SA)	0.16%	4.85%	3.18%	3.66%	2.51%	2.64%	2.61%	3.02%	15.384
Housing (SA)	0.26%	4.11%	3.80%	2.60%	2.36%	2.99%	2.75%	3.08%	42.089
Apparel-SA	0.17%	2.00%	2.01%	0.75%	-1.52%	-1.62%	-1.04%	0.91%	3.975
Transportation (SA)	0.79%	10.86%	12.88%	5.36%	1.52%	2.92%	2.16%	2.34%	16.881
Medical care (SA)	0.29%	3.83%	4.81%	4.66%	4.41%	4.39%	3.94%	5.48%	6.074
Recreation (SA)	0.28%	1.11%	1.67%	1.21%	1.35%	1.30%	1.62%	N/A	5.872
Education and communication (SA)	0.18%	1.81%	1.82%	2.29%	2.09%	2.04%	2.30%	N/A	5.948
Other goods and services (SA)	0.10%	1.33%	2.07%	1.95%	2.62%	3.50%	4.34%	5.33%	3.776
Special indexes									
All items less food (SA)	0.37%	4.77%	5.14%	3.04%	2.07%	2.68%	2.48%	3.07%	85.617
All items less energy (SA)	0.15%	2.72%	2.73%	2.15%	1.98%	2.25%	2.37%	3.17%	92.92
All items less food and energy (SA)	0.10%	2.27%	2.59%	1.87%	1.88%	2.17%	2.31%	3.21%	78.537
Energy (SA)	2.62%	33.50%	36.02%	16.37%	4.36%	8.42%	4.26%	2.22%	7.08
Energy commodities (SA)	3.04%	50.16%	65.53%	30.64%	7.03%	12.00%	6.00%	2.75%	3.48
Median CPI	0.20%	2.84%	2.63%	2.32%	2.67%	2.88%	2.90%	3.39%	100.000

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

	12 Months through June 2004	10 Year High ¹	Date	10 Year Low ¹	Date
Consumer Price Index					
All Urban Consumers					
All Items (NSA)	3.27%	3.76%	Mar 2000	1.07%	Jun 2002
All Items (SA)	3.16%	3.73%	Jun 2000	1.07%	Jun 2002
Food and beverages (SA)	3.66%	4.27%	Nov 1996	1.02%	Jan 2003
Housing (SA)	2.60%	4.80%	Jan 2001	1.87%	Jun 2002
Apparel-SA	0.75%	1.66%	Aug 1998	-3.99%	Apr 2003
Transportation (SA)	5.36%	9.23%	Mar 2000	-4.31%	Feb 2002
Medical care (SA)	4.66%	4.99%	Dec 2002	2.52%	Oct 1997
Recreation (SA)	1.21%	3.39%	Jul 1996	0.30%	Sep 1999
Education and communication (SA)	2.29%	4.35%	Jan 1995	0.30%	Jun 1999
Other goods and services (SA)	1.95%	10.42%	Jan 1999	0.98%	Sep 2003
Special indexes					
All items less food (SA)	3.04%	4.06%	Mar 2000	0.85%	Feb 2002
All items less energy (SA)	2.15%	3.14%	Apr 1995	1.39%	Apr 2003
All items less food and energy (SA)	1.87%	3.15%	Apr 1995	1.04%	Dec 2003
Energy (SA)	16.37%	24.08%	Mar 2000	-15.57%	Feb 2002
Energy commodities (SA)	30.64%	52.34%	Mar 2000	-24.49%	Dec 2001
Median CPI	2.32%	4.01%	Nov 2001	1.71%	Jan 2004

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NSA = Not seasonally adjusted

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¹ Education and communication Index started January 1994

¹ Recreation Index started January 1994

Personal Consumption Expenditures

	Annualized through June 2004							
	Jun 2004	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years	20 Years
Personal Consumption Expenditures								
PCE								
All Items (SA)	0.35%	4.37%	4.04%	2.70%	1.81%	2.10%	1.90%	2.60%
Core PCE - Less Food and Energy	0.25%	2.80%	2.44%	1.77%	1.56%	1.66%	1.68%	2.65%
Durable Goods								
All (SA)	0.40%	1.67%	1.44%	-1.27%	-2.63%	-2.26%	-1.92%	-0.27%
Motor Vehicles and Parts (SA)	1.12%	5.22%	3.77%	-0.29%	-1.46%	-0.65%	0.22%	1.44%
Furniture and Household Equipment	-0.52%	-4.16%	-2.70%	-3.85%	-5.21%	-5.25%	-5.22%	-3.00%
Other (SA)	-0.01%	2.86%	3.08%	0.87%	-0.62%	-0.38%	-0.47%	1.08%
Nondurable Goods								
All (SA)	0.31%	6.26%	7.14%	4.61%	1.85%	2.48%	1.94%	2.22%
Food (SA)	0.10%	4.19%	3.05%	3.18%	2.35%	2.50%	2.33%	2.62%
Clothing and Shoes (SA)	-0.06%	0.25%	1.06%	0.72%	-1.63%	-1.69%	-1.63%	-0.09%
Gasoline, Fuel Oil, and Other Energy	2.87%	46.04%	62.09%	29.73%	6.47%	11.52%	5.91%	2.67%
Other (SA)	-0.05%	0.57%	1.83%	1.19%	1.17%	1.79%	1.91%	2.83%
Services								
All (SA)	0.40%	4.15%	3.16%	2.64%	2.74%	2.86%	2.72%	3.47%
Housing (SA)	0.19%	3.26%	3.00%	2.71%	2.93%	3.16%	3.08%	3.62%
Household Operation (SA)	1.24%	8.00%	5.16%	2.30%	1.56%	2.47%	1.59%	1.83%
Transportation (SA)	0.21%	2.68%	0.39%	1.88%	1.93%	1.92%	2.10%	2.96%
Medical care (SA)	0.63%	4.76%	4.02%	3.63%	3.00%	3.14%	2.95%	4.27%
Recreation (SA)	-0.19%	0.54%	2.18%	1.98%	2.68%	3.01%	2.96%	3.34%
Other (SA)	0.25%	4.45%	2.57%	1.91%	2.95%	2.60%	2.70%	3.36%

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

	12 Months through June 2004	10 Year High ¹	Date	10 Year Low ¹	Date
Personal Consumption Expenditures					
PCE					
All Items (SA)	2.70%	3.03%	Mar 2000	0.74%	Jan 2002
Core PCE - Less Food and Energy (SA)	1.77%	2.56%	Jan 1995	0.82%	Jan 2002
Durable Goods					
All (SA)	-0.29%	2.31%	Jul 1994	-4.16%	Nov 2003
Motor Vehicles and Parts (SA)	-3.85%	5.48%	Mar 1995	-3.62%	Nov 2003
Furniture and Household Equipment (SA)	-3.85%	0.18%	Jul 1994	-6.93%	Apr 1999
Other (SA)	0.87%	2.65%	Jan 1995	-2.20%	Mar 2003
Non-Durable Goods					
All (SA)	4.61%	5.58%	Mar 2000	-0.81%	Dec 2001
Food (SA)	3.18%	3.50%	May 2004	1.11%	Jan 2003
Clothing and Shoes (SA)	0.72%	1.24%	Aug 1997	-4.04%	Jan 2002
Gasoline, Fuel Oil, and Other Energy (SA)	29.73%	50.44%	Mar 2000	-24.11%	Dec 2001
Other (SA)	1.19%	5.53%	Jan 1999	-0.38%	Jun 2003
Services					
All (SA)	2.71%	3.57%	Sep 2002	1.88%	Jun 1998
Housing (SA)	2.30%	4.36%	Feb 2002	1.91%	Jan 2004
Household Operation (SA)	1.88%	7.24%	Mar 2001	-2.44%	Mar 2002
Transportation (SA)	3.63%	3.80%	Jul 2003	0.16%	Jan 2002
Medical care (SA)	2.30%	4.28%	Nov 1994	2.12%	Nov 1997
Recreation (SA)	1.88%	4.16%	Sep 2000	1.29%	Oct 1994
Other (SA)	3.63%	6.90%	Sep 2002	-0.40%	Feb 2001

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¹ Recreation Index started January 1994

Producer Price Index

	Annualized through June 2004								Index Weights as of 12/31/2003
	Jun 2004	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years	20 Years	
Producer Price Index									
Commodities									
All (NSA)	0.34%	12.92%	11.19%	6.59%	2.78%	3.28%	2.01%	1.75%	100.000
Industrial (NSA)	0.68%	12.59%	11.34%	5.75%	2.40%	3.14%	2.00%	1.77%	86.213
Farm Products (NSA)	-4.72%	4.78%	8.21%	20.50%	6.88%	5.44%	1.89%	0.99%	13.787
Finished Goods									
All (SA)	0.00%	5.00%	5.03%	4.14%	1.50%	2.31%	1.71%	1.80%	100.000
Finished consumer goods (SA)	-0.53%	5.75%	5.79%	4.85%	1.92%	2.89%	2.12%	1.92%	74.351
Capital equipment (SA)	0.21%	2.00%	2.45%	1.80%	0.45%	0.59%	0.53%	1.50%	25.649
Intermediate Goods									
All (SA)	0.49%	12.72%	11.43%	6.91%	2.79%	3.02%	1.91%	1.60%	100.000
Manufacturing (SA)	0.51%	12.15%	10.97%	6.56%	2.49%	2.16%	1.31%	1.40%	46.863
Construction (SA)	0.72%	16.91%	14.74%	9.43%	3.30%	2.26%	2.07%	2.33%	12.896
Processed fuels and lubricants (SA)	0.74%	18.17%	17.55%	9.98%	3.91%	7.98%	4.03%	1.14%	16.959
Containers (SA)	0.77%	10.51%	5.95%	2.53%	0.86%	2.13%	2.14%	2.04%	3.160
Supplies (SA)	0.07%	7.09%	6.40%	4.10%	2.00%	1.93%	1.50%	1.74%	20.122
Crude materials									
All (SA)	1.64%	34.07%	27.95%	18.78%	10.48%	10.77%	4.62%	2.25%	100.000
Foodstuffs and feedstuffs (SA)	-3.63%	12.74%	13.13%	23.88%	7.96%	6.72%	2.40%	1.36%	40.157
Nonfood except fuel (SA)	-2.49%	-10.12%	18.24%	20.72%	8.83%	9.07%	3.29%	1.43%	33.319
Fuel (SA)	14.56%	178.44%	65.91%	11.23%	17.98%	20.17%	10.65%	N/A	26.524

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Producer Price Index					
Commodities					
All (NSA)	6.59%	9.12%	Jan 2001	-8.21%	Jan 2002
Industrial (NSA)	5.75%	10.04%	Mar 2003	-9.45%	Jan 2002
Farm Products (NSA)	20.50%	25.43%	Dec 2003	-14.09%	Jul 1997
Finished Goods					
All (SA)	4.14%	4.94%	May 2004	-2.74%	May 2002
Finished consumer goods (SA)	4.85%	6.14%	May 2004	-3.48%	May 2002
Capital equipment (SA)	1.80%	2.60%	Nov 1995	-1.00%	Aug 2002
Intermediate Goods					
All (SA)	6.91%	7.98%	Mar 2003	-4.86%	Feb 2002
Manufacturing (SA)	6.56%	8.65%	Apr 1995	-3.26%	Feb 2002
Construction (SA)	9.43%	9.43%	Jun 2004	-0.73%	Mar 2001
Processed fuels and lubricants (SA)	9.98%	35.65%	Mar 2003	-20.56%	Jan 2002
Containers (SA)	2.53%	18.56%	Jul 1995	-9.00%	Nov 1996
Supplies (SA)	4.10%	4.98%	Dec 1995	-1.40%	Sep 1998
Crude materials					
All (SA)	18.78%	55.10%	Jan 2001	-39.75%	Jan 2002
Foodstuffs and feedstuffs (SA)	23.88%	28.21%	Oct 2003	-14.54%	Jul 1997
Nonfood except fuel (SA)	20.72%	62.59%	Feb 2000	-29.01%	Nov 2001
Fuel (SA)	11.23%	223.46%	Jan 2001	-67.47%	Jan 2002

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

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¹ Education and communication Index started January 1994

¹ Recreation Index started January 1994

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