

Bianco Research L.L.C.

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Volume 5, No. 6

1731 North Marcey, Chicago IL 60614

www.biancoresearch.com

Inflation Watch

By Howard L. Simons (847) 304-1511

and Neil M. Bouhan (847) 304-1511

June 15, 2005

The Bureau of Labor Statistics released the May 2005 Producer and Consumer Price Index reports on Tuesday, June 14th and Wednesday, June 15th, 2005, respectively.

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-indices and special indices for all three.

Additional Information

To see charts for all the indices 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 **2.80%** from May 2004 to May 2005.

Within the eight major sub-groups:

Four are growing faster than the base rate. These groups comprise **69.29%** of the index:

- Transportation (4.46%)
- Medical Care (4.21%)
- Housing (2.91%)
- Other Goods and Services (2.87%)

Four are growing slower than the base rate. These groups comprise **30.71%** of the index:

- Food and Beverages (2.36%)
- Education and communication (1.80%)
- Recreation (0.64%)
- Apparel (-0.83%)

The commonly watched special index, all items less food and energy (or "core rate"), rose 2.09% in the May to May 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%** on a year-over-year basis.

Two other special indices are notable on a year-over-year basis. The energy index **rose 10.56%** while the energy commodities index **rose 12.63%**.

Personal Consumption Expenditures

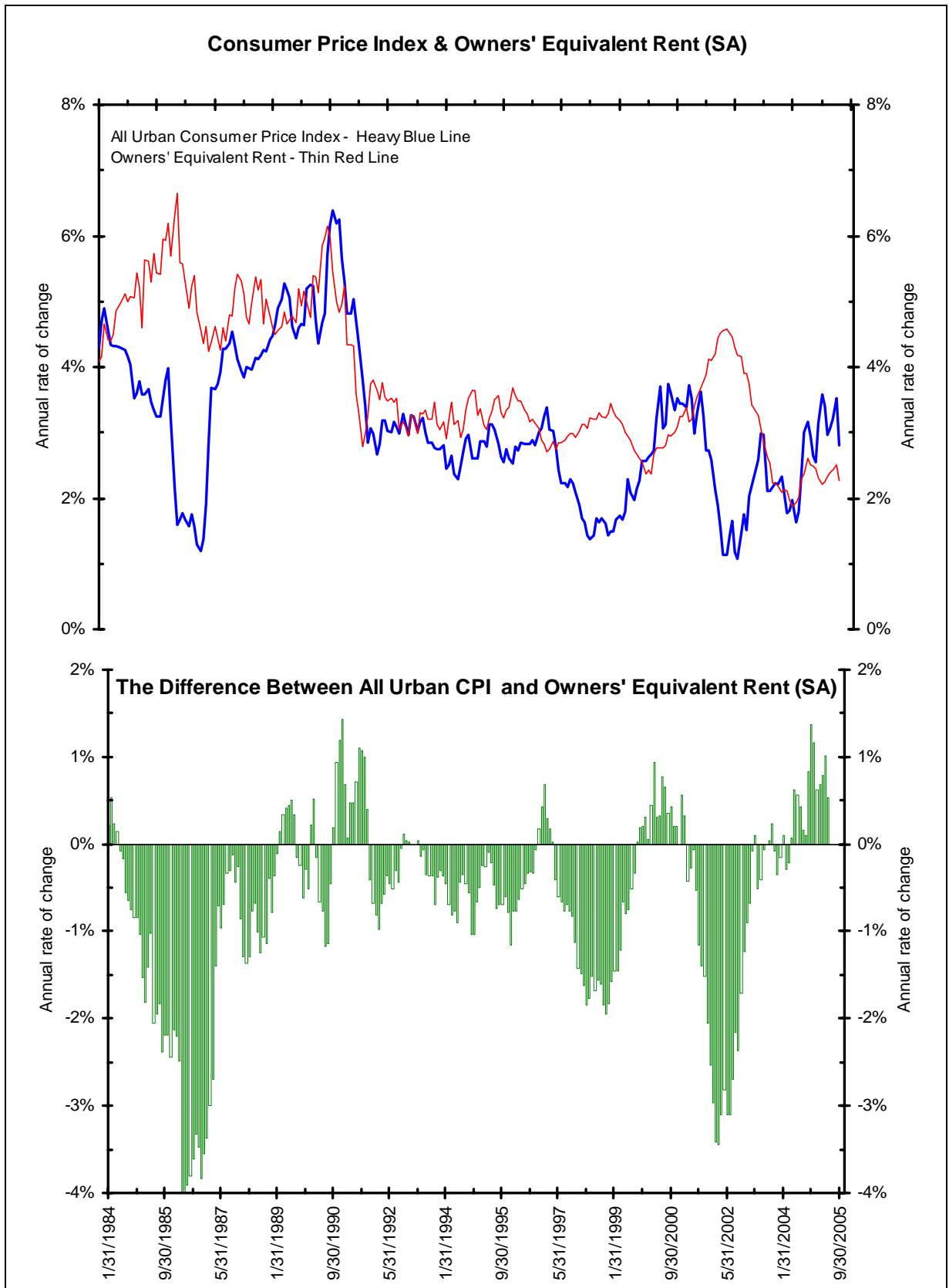
In the year ending **April** 2005, the PCE Index increased 2.67%. The "core" PCE Index (less food and energy) increased by 1.62%. The difference between the 12-month growth rate of Durable Goods (-0.69%), Non-Durable Goods (4.34%), and Services (2.56%) is of interest. Most of the differences between these indices can be attributed to the hedonic adjustments made to the Durable Goods measures.

Producer Price Inflation

In the twelve months ending May 2005, the Producer Price Index for Finished Goods **increased 3.30%**, the Producer Price Index for Intermediate Goods increased **6.28%**, the Producer Price Index for Crude materials **rose 5.90%** and the Producer Price Index for Commodities **rose 5.18%**.

Housing Component

Owners' equivalent rent, which at 23.158% is one of the largest single components of the CPI, increased 0.3% in May and is up 2.27% over the past twelve months. This measure has increased less than the All-Urban CPI over the past year as ever-greater numbers of tenants became first-time homeowners. If the market operates efficiently, landlords will start to increase rental rates against the competition of higher home prices. In addition, those tempted to time the real estate market, bubble or not, by selling their homes and becoming tenants could start to put upward pressure on rents. Finally, higher mortgage costs, if and when they arrive, will increase rental rates at the very time they will suppress home prices. **For all of these reasons, we believe the next great secular trend in inflation will emerge from the housing sector.**



Consumer Price Index

	Annualized through May 2005								Index Weights as of 12/31/2004
	May 2005	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years	20 Years	
Consumer Price Index									
All Urban Consumers									
All Items (NSA)	-0.10%	5.53%	3.59%	2.80%	2.64%	2.54%	2.48%	3.02%	100.000
All Items (SA)	-0.05%	4.45%	3.06%	2.81%	2.64%	2.54%	2.47%	3.01%	100.000
Food and beverages (SA)	0.10%	3.86%	2.24%	2.36%	2.71%	2.62%	2.54%	3.03%	15.291
Housing (SA)	0.10%	3.36%	3.05%	2.91%	2.63%	2.93%	2.78%	3.02%	41.993
Apparel-SA	0.00%	0.67%	-0.33%	-0.83%	-1.22%	-1.51%	-0.90%	0.71%	3.841
Transportation (SA)	-0.98%	10.99%	5.23%	4.46%	3.85%	2.40%	2.04%	2.40%	17.414
Medical care (SA)	0.34%	4.21%	4.69%	4.21%	4.27%	4.43%	3.92%	5.39%	6.132
Recreation (SA)	0.28%	1.85%	0.74%	0.64%	0.93%	1.19%	1.45%	N/A	5.733
Education and communication (SA)	0.00%	2.51%	2.15%	1.80%	1.92%	2.08%	2.15%	N/A	5.846
Other goods and services (SA)	0.39%	2.21%	3.28%	2.87%	2.32%	2.94%	4.26%	5.18%	3.75
Special indexes									
All items less food (SA)	-0.10%	4.65%	3.15%	2.91%	2.61%	2.52%	2.45%	3.01%	85.705
All items less energy (SA)	0.15%	2.66%	2.26%	2.16%	1.96%	2.18%	2.28%	3.09%	92.009
All items less food and energy (SA)	0.15%	2.22%	2.33%	2.09%	1.79%	2.10%	2.24%	3.10%	77.714
Energy (SA)	-2.03%	28.70%	12.31%	10.56%	11.36%	7.04%	4.76%	2.53%	7.991
Energy commodities (SA)	-4.23%	44.81%	15.77%	12.63%	16.47%	8.48%	6.33%	3.21%	4.269
Median CPI	0.30%	2.84%	2.84%	2.32%	2.30%	2.83%	2.84%	3.30%	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 May 2005	10 Year High ¹	Date	10 Year Low ¹	Date
Consumer Price Index					
All Urban Consumers					
All Items (NSA)	2.80%	3.76%	Mar 2000	1.07%	Jun 2002
All Items (SA)	2.81%	3.73%	Jun 2000	1.07%	Jun 2002
Food and beverages (SA)	2.36%	4.27%	Nov 1996	1.02%	Jan 2003
Housing (SA)	2.91%	4.80%	Jan 2001	1.87%	Jun 2002
Apparel-SA	-0.83%	1.66%	Aug 1998	-3.99%	Apr 2003
Transportation (SA)	4.46%	9.23%	Mar 2000	-4.31%	Feb 2002
Medical care (SA)	4.21%	4.99%	Dec 2002	2.52%	Oct 1997
Recreation (SA)	0.64%	3.39%	Jul 1996	0.18%	Apr 2005
Education and communication (SA)	1.80%	4.00%	Dec 1995	0.30%	Jun 1999
Other goods and services (SA)	2.87%	10.42%	Jan 1999	0.98%	Sep 2003
Special indexes					
All items less food (SA)	2.91%	4.06%	Mar 2000	0.85%	Feb 2002
All items less energy (SA)	2.16%	3.09%	Oct 1995	1.39%	Apr 2003
All items less food and energy (SA)	2.09%	3.11%	Oct 1995	1.04%	Dec 2003
Energy (SA)	10.56%	24.08%	Mar 2000	-15.57%	Feb 2002
Energy commodities (SA)	12.63%	52.34%	Mar 2000	-24.49%	Dec 2001
Median CPI	2.32%	4.01%	Nov 2001	1.71%	Jan 2004

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

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NSA = Not seasonally adjusted

SA = Seasonally adjusted

¹ Education and communication Index started January 1994

¹ Recreation Index started January 1994

Personal Consumption Expenditures

	Annualized through April 2005							
	Apr 2005	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years	20 Years
Personal Consumption Expenditures								
PCE								
All Items (SA)	0.42%	4.72%	2.96%	2.67%	2.17%	2.03%	1.90%	2.55%
Core PCE - Less Food and Energy	0.10%	2.23%	2.02%	1.62%	1.51%	1.61%	1.63%	2.55%
Durable Goods								
All (SA)	-0.06%	-0.67%	0.23%	-0.69%	-2.03%	-2.12%	-2.08%	-0.36%
Motor Vehicles and Parts (SA)	0.06%	1.09%	4.00%	1.84%	-0.52%	-0.43%	0.00%	1.43%
Furniture and Household Equipment	-0.07%	-2.04%	-3.80%	-3.31%	-4.51%	-4.99%	-5.25%	-3.15%
Other (SA)	-0.31%	-2.11%	-0.81%	-1.65%	-0.99%	-0.68%	-0.77%	0.88%
Nondurable Goods								
All (SA)	0.92%	9.57%	3.97%	4.34%	2.81%	2.28%	2.09%	2.25%
Food (SA)	0.69%	3.75%	2.47%	2.88%	2.39%	2.55%	2.33%	2.63%
Clothing and Shoes (SA)	-0.69%	0.14%	-0.12%	-0.61%	-1.37%	-1.57%	-1.42%	-0.26%
Gasoline, Fuel Oil, and Other Energy	6.06%	91.19%	24.35%	27.85%	17.92%	9.28%	6.90%	3.38%
Other (SA)	0.03%	0.87%	1.07%	1.18%	0.63%	1.36%	1.94%	2.72%
Services								
All (SA)	0.27%	3.51%	3.03%	2.56%	2.74%	2.80%	2.67%	3.39%
Housing (SA)	0.13%	3.23%	2.66%	2.51%	2.52%	3.08%	3.05%	3.50%
Household Operation (SA)	1.10%	6.10%	6.72%	4.35%	3.39%	2.69%	1.77%	1.80%
Transportation (SA)	0.44%	4.77%	3.90%	1.67%	2.10%	1.90%	2.06%	2.95%
Medical care (SA)	0.17%	3.95%	2.81%	2.51%	3.09%	3.10%	2.82%	4.17%
Recreation (SA)	0.21%	2.41%	2.47%	2.75%	2.57%	2.90%	2.98%	3.28%
Other (SA)	0.20%	2.24%	2.22%	2.14%	2.52%	2.43%	2.58%	3.30%

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#cpicpi>)

NSA = Not seasonally adjusted

SA = Seasonally adjusted

	12 Months through April 2005	10 Year High ¹	Date	10 Year Low ¹	Date
Personal Consumption Expenditures					
PCE					
All Items (SA)	2.67%	3.03%	Mar 2000	0.74%	Jan 2002
Core PCE - Less Food and Energy (SA)	1.62%	2.42%	Sep 2002	0.96%	Jan 2002
Durable Goods					
All (SA)	-0.69%	0.99%	May 1995	-4.17%	Oct 2003
Motor Vehicles and Parts (SA)	1.84%	4.87%	May 1995	-3.34%	Oct 2003
Furniture and Household Equipment (SA)	-3.31%	-2.79%	May 1995	-7.03%	Sep 2003
Other (SA)	-1.65%	1.16%	Jul 2001	-2.12%	Mar 2003
Non-Durable Goods					
All (SA)	4.34%	5.58%	Mar 2000	-0.78%	Dec 2001
Food (SA)	2.88%	3.53%	May 2004	1.13%	Jan 2003
Clothing and Shoes (SA)	-0.61%	1.24%	Aug 1997	-4.02%	Jan 2002
Gasoline, Fuel Oil, and Other Energy (SA)	27.85%	50.44%	Mar 2000	-23.69%	Dec 2001
Other (SA)	1.18%	5.53%	Jan 1999	-0.36%	Jun 2003
Services					
All (SA)	2.56%	3.67%	Aug 2001	1.88%	Jun 1998
Housing (SA)	2.51%	4.31%	Feb 2002	1.96%	Jan 2004
Household Operation (SA)	4.35%	6.87%	Mar 2001	-2.17%	Jun 2002
Transportation (SA)	1.67%	3.69%	Oct 1995	0.15%	Oct 2004
Medical care (SA)	1.67%	3.97%	May 1995	2.12%	Jan 2005
Recreation (SA)	2.51%	4.16%	Sep 2000	2.04%	Jul 1998
Other (SA)	2.75%	6.68%	Sep 2002	-0.31%	Feb 2001

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

Producer Price Index

	Annualized through May 2005								Index Weights as of 12/31/2004
	May 2005	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years	20 Years	
Producer Price Index									
Commodities									
All (NSA)	-0.39%	7.60%	4.00%	5.18%	5.68%	3.25%	2.14%	2.02%	100.000
Industrial (NSA)	-0.57%	7.22%	3.68%	6.69%	5.71%	3.28%	2.15%	2.05%	86.213
Farm Products (NSA)	0.66%	14.35%	5.67%	-10.21%	7.89%	3.18%	1.69%	1.22%	13.787
Finished Goods									
All (SA)	0.00%	2.65%	1.85%	3.30%	3.49%	2.29%	1.85%	1.92%	100.000
Finished consumer goods (SA)	-0.94%	2.32%	1.54%	3.42%	4.26%	2.79%	2.28%	2.08%	74.422
Capital equipment (SA)	0.07%	2.24%	2.54%	2.63%	1.30%	0.85%	0.58%	1.50%	25.578
Intermediate Goods									
All (SA)	-0.72%	4.36%	4.10%	6.28%	5.81%	3.25%	1.87%	1.91%	100.000
Manufacturing (SA)	-0.28%	0.55%	3.84%	5.39%	4.88%	2.43%	1.02%	1.69%	46.892
Construction (SA)	-0.23%	-0.46%	4.62%	4.86%	4.93%	2.99%	2.09%	2.46%	12.827
Processed fuels and lubricants (SA)	-3.03%	19.49%	4.19%	13.32%	13.04%	7.27%	4.89%	1.84%	16.978
Containers (SA)	0.06%	0.72%	2.44%	6.57%	3.41%	1.81%	1.15%	2.15%	3.164
Supplies (SA)	0.13%	3.51%	4.23%	2.79%	3.02%	2.05%	1.41%	1.89%	20.138
Crude materials									
All (SA)	-1.96%	21.51%	-2.98%	5.90%	16.10%	8.24%	5.22%	2.92%	100.000
Foodstuffs and feedstuffs (SA)	-1.04%	4.99%	4.51%	-11.18%	8.80%	3.93%	2.27%	1.41%	39.856
Nonfood except fuel (SA)	-1.72%	14.75%	-2.02%	17.53%	16.22%	7.42%	4.05%	2.81%	33.348
Fuel (SA)	-3.12%	53.54%	-11.19%	16.12%	26.31%	16.19%	12.79%	N/A	26.796

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

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Producer Price Index					
Commodities					
All (NSA)	5.18%	9.12%	Jan 2001	-8.21%	Jan 2002
Industrial (NSA)	6.69%	10.59%	Nov 2004	-9.45%	Jan 2002
Farm Products (NSA)	-10.21%	25.43%	Dec 2003	-14.09%	Jul 1997
Finished Goods					
All (SA)	3.30%	5.26%	Nov 2004	-2.74%	May 2002
Finished consumer goods (SA)	3.42%	6.41%	Nov 2004	-3.48%	May 2002
Capital equipment (SA)	2.63%	2.85%	Apr 2005	-1.00%	Aug 2002
Intermediate Goods					
All (SA)	6.28%	9.90%	Nov 2004	-4.86%	Feb 2002
Manufacturing (SA)	5.39%	9.17%	Jan 2005	-3.26%	Feb 2002
Construction (SA)	4.86%	10.73%	Jan 2005	-0.73%	Mar 2001
Processed fuels and lubricants (SA)	13.32%	35.65%	Mar 2003	-20.56%	Jan 2002
Containers (SA)	6.57%	18.56%	Jul 1995	-9.00%	Nov 1996
Supplies (SA)	2.79%	4.98%	Dec 1995	-1.40%	Sep 1998
Crude materials					
All (SA)	5.90%	55.10%	Jan 2001	-39.75%	Jan 2002
Foodstuffs and feedstuffs (SA)	-11.18%	28.21%	Oct 2003	-14.54%	Jul 1997
Nonfood except fuel SA)	17.53%	62.59%	Feb 2000	-29.01%	Nov 2001
Fuel (SA)	16.12%	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

Bianco Research L.L.C.

1731 North Marcey, Suite 510
Chicago IL 60614

Phone: (847) 304-1511 Fax (847) 304-1749
e-mail: research@biancoresearch.com
<http://www.biancoresearch.com>

For more information about the contents/ opinions contained in these reports:

President (847) 756-3599
James A. Bianco jbianco@biancoresearch.com

Strategist/Analysts (847) 304-1511
Howard L. Simons hsimons@biancoresearch.com
Greg Blaha gblaha@biancoresearch.com
Neil Bouhan nbouhan@biancoresearch.com

For subscription/service Information:

Arbor Research & Trading, Inc.
Director of Sales & Marketing (800) 625-1860
Fritz Handler fritz.handler@arborresearch.com
Peter Forbes peter.forbes@arborresearch.com

Arbor Research & Trading, Inc.

1000 Hart Road, Suite 260
Barrington IL 60010

Phone (847) 304-1560 Fax (847) 304-1595
e-mail inforequest@arborresearch.com
<http://www.arborresearch.com>

For more information about Arbor Research & Trading and its services:

Director of Fixed-Income Sales (800) 625-1855
Daniel Lustig dan.lustig@arborresearch.com

Chicago Sales Office
1 N. LaSalle Street, 40th Floor
Chicago IL 60606
Bob Youstra bob.youstra@arborresearch.com
Phone (312) 379-3767

New York Sales Office
230 Park Avenue, Suite 2425
New York, NY 10169
Edward T. McElwreath ed.mcelwreath@arborresearch.com
Phone (212) 867-5326 Fax (212) 370-1218

For more information about Arbor Research & Trading and its services:

Director of International Sales (847) 756-3510
James L. Perry james.perry@arborresearch.com

London Sales Office
75 Cannon Street London England EC4N 5BN
Phone 44-207-556-7309 Fax 44-207-556-7468

For more information:

Director of Arbor (UK) 44-207-556-7309
Neil Tritton neil.tritton@arborresearch.com
Ben Gibson ben.gibson@arborresearch.com