

# Bianco Research L.L.C.

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## *Inflation Watch*

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The Bureau of Labor Statistics released the August 2005 Producer and Consumer Price Index reports on Tuesday, September 13<sup>th</sup> and Thursday, September 15<sup>th</sup>, 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 **3.64%** from August 2004 to August 2005.

Within the eight major sub-groups:

Two are growing faster than the base rate. These groups comprise **23.55%** of the index:

- Transportation (8.71%)
- Medical Care (4.01%)

Six are growing slower than the base rate. These groups comprise **76.45%** of the index:

- Other Goods and Services (3.01%)
- Housing (2.94%)
- Food and Beverages (2.13%)
- Education and communication (1.79%)
- Recreation (0.83%)
- Apparel (-0.58%)

The commonly watched special index, all items less food and energy (or "core rate"), rose 2.18% in the August to August 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 **2.43%** on a year-over-year basis.

Two other special indices are notable on a year-over-year basis. The energy index **rose 19.41%** while the energy commodities index **rose 30.22%**.

### **Personal Consumption Expenditures**

In the year ending **July** 2005, the PCE Index increased 2.54%. The "core" PCE Index (less food and energy) increased by 1.84%.

### **Producer Price Inflation**

In the twelve months ending August 2005, the Producer Price Index for Finished Goods **increased 5.05%**, the Producer Price Index for Intermediate Goods increased **6.09%**, the Producer Price Index for Crude materials **rose 11.39%** and the Producer Price Index for Commodities **rose 6.28%**.

### **Owner's Equivalent Rent and Inflation**

In our Daily Newsclips over the past couple days, we noted that the displacement of hundreds of thousands of New Orleans residents is putting upward pressure on rents and housing prices in the south. The quotes on the following page are evidence.

The chart on the next page shows the "Owner Equivalent Rent" (OER) portion of CPI and compares it to Core CPI. OER is how the Bureau of Labor Statistics determines housing inflation (they calculate what you could rent your house for). This is 23% of overall CPI and 30% of core CPI. If these rental and house increases are seen broadly in the south (which makes up 32.3% of CPI), it could quickly filter through to higher Core CPI. Assuming a 10% increase on OER across the south, the annualized rate of Core CPI could rise by more than 1%. This could all add up to an upside surprise in the September inflation numbers which will be released in a month.

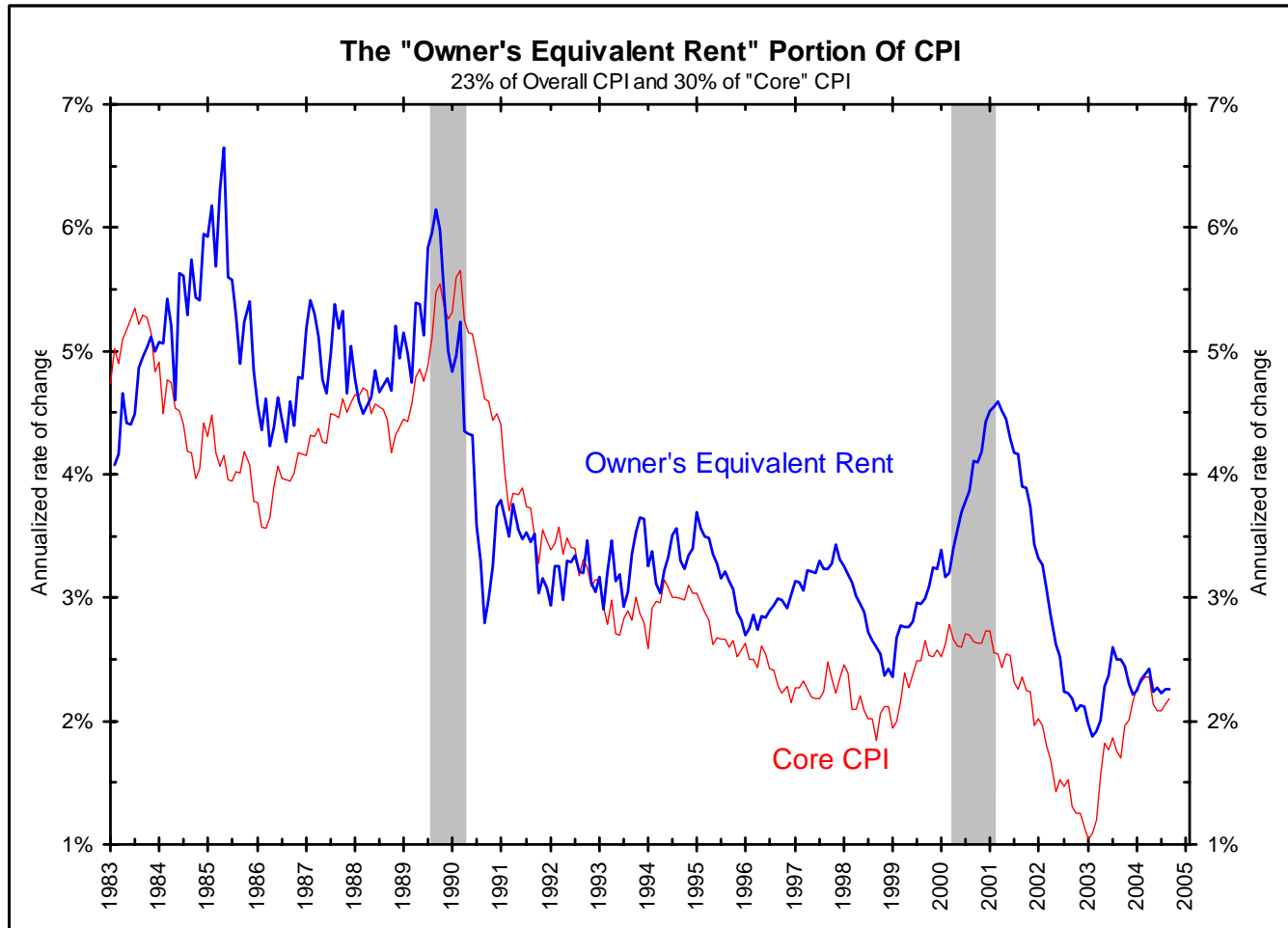
Will it be viewed as temporary? Yes, that is what everyone will say. But is it temporary? Many of those driven out of New Orleans have signed rents that they will pay for months, if not years. They bought houses that they financed with 30-year terms. This supply is now gone from the market for some time. Many stories have said some are not planning on returning to New Orleans. So, while it may be temporary, "temporary" might mean months if not years in this case.

"Buyers started the bidding war," Burkett said, with prices rising between 20 and 30 percent in the last week. Burkett said the surge began Aug. 30, the day after the storm hit, with corporations snapping up rental properties as they prepared to relocate their offices from New Orleans, which is 70 miles away. While the first home shoppers were able to lock in contracts at pre-storm prices, by the end of the first week after the hurricane, much of the inventory of homes for sale was gone, she said."

[Baton Rouge's real estate boom](#) CNN.com, September 11, 2005

"The rental market in Baton Rouge was exhausted within 24 hours of the storm, and since then just about every house for sale has been snapped up as well."

[Baton Rouge gets higher](#) The Guardian (Baton Rouge), September 9, 2005



## Consumer Price Index

	Annualized through August 2005								Index Weights as of 12/31/2004
	Aug 2005	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years	20 Years	
<b>Consumer Price Index</b>									
<b>All Urban Consumers</b>									
All Items (NSA)	0.51%	4.18%	4.85%	3.64%	2.82%	2.59%	2.54%	3.04%	100.000
All Items (SA)	0.51%	4.19%	4.32%	3.54%	2.80%	2.57%	2.52%	3.03%	100.000
Food and beverages (SA)	0.05%	1.05%	2.45%	2.13%	2.74%	2.51%	2.53%	3.03%	15.291
Housing (SA)	0.20%	2.70%	3.03%	2.94%	2.69%	2.85%	2.77%	3.01%	41.993
Apparel-SA	1.02%	-2.64%	-1.00%	-0.58%	-1.17%	-1.47%	-1.04%	0.63%	3.841
Transportation (SA)	2.19%	15.57%	13.26%	8.71%	4.83%	2.97%	2.43%	2.60%	17.414
Medical care (SA)	0.03%	2.63%	3.42%	4.01%	4.12%	4.32%	3.87%	5.34%	6.132
Recreation (SA)	0.27%	0.37%	1.11%	0.83%	0.99%	1.08%	1.45%	N/A	5.733
Education and communication (SA)	-0.09%	0.71%	1.60%	1.79%	1.39%	2.00%	2.08%	N/A	5.846
Other goods and services (SA)	0.19%	3.11%	2.66%	3.01%	2.07%	2.99%	4.23%	5.14%	3.75
<b>Special indexes</b>									
All items less food (SA)	0.61%	4.81%	4.73%	3.79%	2.81%	2.58%	2.52%	3.04%	85.705
All items less energy (SA)	0.10%	1.22%	1.94%	2.16%	1.88%	2.12%	2.26%	3.07%	92.009
All items less food and energy (SA)	0.10%	1.40%	1.81%	2.18%	1.73%	2.04%	2.20%	3.07%	77.714
Energy (SA)	5.00%	38.21%	33.37%	19.41%	14.04%	8.11%	5.63%	3.00%	7.991
Energy commodities (SA)	7.89%	66.45%	55.25%	30.22%	20.57%	10.69%	7.87%	3.91%	4.269
Median CPI	0.20%	2.43%	2.63%	2.43%	2.24%	2.79%	2.82%	3.28%	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 August 2005	10 Year High <sup>1</sup>	Date	10 Year Low <sup>1</sup>	Date
<b>Consumer Price Index</b>					
<b>All Urban Consumers</b>					
All Items (NSA)	3.64%	3.76%	Mar 2000	1.07%	Jun 2002
All Items (SA)	3.54%	3.73%	Jun 2000	1.07%	Jun 2002
Food and beverages (SA)	2.13%	4.27%	Nov 1996	1.02%	Jan 2003
Housing (SA)	2.94%	4.80%	Jan 2001	1.87%	Jun 2002
Apparel-SA	-0.58%	1.66%	Aug 1998	-3.99%	Apr 2003
Transportation (SA)	8.71%	9.23%	Mar 2000	-4.31%	Feb 2002
Medical care (SA)	4.01%	4.99%	Dec 2002	2.52%	Oct 1997
Recreation (SA)	0.83%	3.39%	Jul 1996	0.09%	Jun 2005
Education and communication (SA)	1.79%	4.00%	Dec 1995	0.30%	Jun 1999
Other goods and services (SA)	3.01%	10.42%	Jan 1999	0.98%	Sep 2003
<b>Special indexes</b>					
All items less food (SA)	3.79%	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)	2.18%	3.11%	Oct 1995	1.04%	Dec 2003
Energy (SA)	19.41%	24.08%	Mar 2000	-15.57%	Feb 2002
Energy commodities (SA)	30.22%	52.34%	Mar 2000	-24.49%	Dec 2001
Median CPI	2.43%	4.01%	Nov 2001	1.71%	Jan 2004

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

<sup>1</sup> Education and communication Index started January 1994

<sup>1</sup> Recreation Index started January 1994

## Personal Consumption Expenditures

	Annualized through July 2005							
	Jul 2005	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years	20 Years
<b>Personal Consumption Expenditures</b>								
<b>PCE</b>								
All Items (SA)	0.30%	1.34%	2.84%	2.54%	2.34%	2.10%	1.95%	2.57%
Core PCE - Less Food and Energy	0.06%	1.24%	1.46%	1.84%	1.70%	1.78%	1.68%	2.57%
<b>Durable Goods</b>								
All (SA)	-0.47%	-2.57%	-1.79%	-0.65%	-1.93%	-2.09%	-2.04%	-0.35%
Motor Vehicles and Parts (SA)	-0.77%	-2.30%	-0.94%	1.99%	-0.39%	-0.35%	0.03%	1.45%
Furniture and Household Equipment	-0.49%	-5.70%	-3.91%	-3.76%	-4.56%	-5.13%	-5.24%	-3.15%
Other (SA)	0.27%	2.88%	0.32%	-0.78%	-0.60%	-0.44%	-0.67%	0.91%
<b>Nondurable Goods</b>								
All (SA)	0.72%	0.25%	4.96%	3.28%	2.86%	2.05%	2.07%	2.23%
Food (SA)	0.21%	0.93%	2.35%	2.04%	2.44%	2.39%	2.33%	2.64%
Clothing and Shoes (SA)	-1.03%	-6.79%	-3.38%	-2.06%	-1.43%	-1.81%	-1.54%	-0.38%
Gasoline, Fuel Oil, and Other Energy	5.99%	2.31%	40.29%	20.35%	17.54%	7.58%	6.79%	3.36%
Other (SA)	0.27%	1.87%	1.29%	1.65%	0.75%	1.41%	1.91%	2.70%
<b>Services</b>								
All (SA)	0.25%	2.72%	2.77%	2.84%	2.99%	3.03%	2.76%	3.41%
Housing (SA)	0.28%	2.42%	2.85%	2.50%	2.51%	3.05%	3.03%	3.43%
Household Operation (SA)	0.40%	3.27%	4.70%	3.75%	3.35%	2.70%	1.84%	1.81%
Transportation (SA)	0.63%	6.57%	5.75%	3.36%	3.07%	2.45%	2.26%	3.07%
Medical care (SA)	0.19%	3.40%	2.52%	2.87%	3.26%	3.15%	2.89%	4.17%
Recreation (SA)	0.26%	1.71%	2.04%	2.45%	2.46%	2.73%	2.97%	3.27%
Other (SA)	0.12%	1.29%	1.68%	2.79%	3.20%	3.25%	2.80%	3.46%

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#cpic>)

NSA = Not seasonally adjusted

SA = Seasonally adjusted

	12 Months through July 2005	10 Year High <sup>1</sup>	Date	10 Year Low <sup>1</sup>	Date
<b>Personal Consumption Expenditures</b>					
<b>PCE</b>					
All Items (SA)	2.54%	3.24%	Nov 2004	0.74%	Jan 2002
Core PCE - Less Food and Energy (SA)	1.84%	2.42%	Sep 2002	0.97%	Jan 2002
<b>Durable Goods</b>					
All (SA)	-0.65%	0.09%	Aug 1995	-4.06%	Oct 2003
Motor Vehicles and Parts (SA)	1.99%	3.29%	Aug 1995	-3.17%	Oct 2003
Furniture and Household Equipment (SA)	-3.76%	-2.74%	Oct 2004	-7.04%	Sep 2003
Other (SA)	-0.78%	1.16%	Jul 2001	-2.16%	May 2003
<b>Non-Durable Goods</b>					
All (SA)	3.28%	5.58%	Mar 2000	-0.78%	Dec 2001
Food (SA)	2.04%	3.53%	May 2004	1.08%	Jan 2003
Clothing and Shoes (SA)	-2.06%	1.24%	Aug 1997	-4.02%	Jan 2002
Gasoline, Fuel Oil, and Other Energy (SA)	20.35%	50.44%	Mar 2000	-23.69%	Dec 2001
Other (SA)	1.65%	5.53%	Jan 1999	-0.39%	Jun 2003
<b>Services</b>					
All (SA)	2.84%	3.67%	Aug 2001	1.88%	Jun 1998
Housing (SA)	2.50%	4.31%	Feb 2002	2.05%	Jan 2004
Household Operation (SA)	3.75%	6.87%	Mar 2001	-2.17%	Jun 2002
Transportation (SA)	3.36%	3.69%	Oct 1995	0.34%	Jan 2002
Medical care (SA)	3.36%	3.88%	Jun 2001	2.12%	Nov 1997
Recreation (SA)	2.87%	4.16%	Sep 2000	2.04%	Jul 1998
Other (SA)	2.45%	6.68%	Sep 2002	-0.31%	Feb 2001

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#cpic>)

NSA = Not seasonally adjusted

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<sup>1</sup> Education and communication Index started January 1994

<sup>1</sup> Recreation Index started January 1994

## Producer Price Index

	Annualized through August 2005								Index Weights as of 12/31/2004
	Aug 2005	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years	20 Years	
<b>Producer Price Index</b>									
<b>Commodities</b>									
All (NSA)	0.70%	7.73%	7.66%	6.28%	6.15%	3.43%	2.32%	2.15%	100.000
Industrial (NSA)	0.88%	10.64%	8.91%	7.37%	6.47%	3.46%	2.44%	2.20%	86.213
Farm Products (NSA)	-1.64%	-21.16%	-5.53%	-3.95%	4.66%	3.86%	0.84%	1.20%	13.787
<b>Finished Goods</b>									
All (SA)	0.58%	6.68%	4.64%	5.05%	4.02%	2.48%	2.01%	2.02%	100.000
All Less Energy (SA)	-0.13%	-0.77%	0.52%	2.17%	1.96%	1.44%	1.29%	1.88%	82.918
Finished consumer goods (SA)	0.82%	9.20%	5.84%	6.14%	4.93%	3.09%	2.51%	2.22%	74.422
Capital equipment (SA)	-0.07%	0.83%	1.68%	2.19%	1.49%	0.82%	0.56%	1.49%	25.578
<b>Intermediate Goods</b>									
All (SA)	0.66%	7.36%	5.85%	6.09%	6.16%	3.46%	2.02%	2.05%	100.000
Manufacturing (SA)	-0.07%	-2.19%	-0.69%	3.37%	4.44%	2.30%	0.93%	1.68%	46.892
Construction (SA)	0.00%	0.69%	0.23%	3.12%	4.85%	3.09%	2.05%	2.46%	12.827
Processed fuels and lubricants (SA)	3.26%	47.65%	32.22%	19.04%	16.05%	8.27%	6.09%	2.63%	16.978
Containers (SA)	-0.18%	-0.24%	0.97%	3.02%	3.28%	1.77%	0.93%	2.16%	3.164
Supplies (SA)	0.07%	2.40%	2.95%	3.12%	3.00%	2.13%	1.38%	1.90%	20.138
<b>Crude materials</b>									
All (SA)	2.33%	24.24%	22.26%	11.39%	18.61%	8.87%	6.08%	3.36%	100.000
Foodstuffs and feedstuffs (SA)	-1.42%	-16.61%	-6.73%	-4.05%	6.47%	4.70%	1.38%	1.39%	39.856
Nonfood except fuel (SA)	4.08%	60.18%	34.73%	17.54%	20.91%	9.36%	5.98%	3.51%	33.348
Fuel (SA)	3.94%	36.13%	44.04%	22.15%	33.00%	14.37%	14.67%	N/A	26.796

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#pci>)

NSA = Not seasonally adjusted

SA = Seasonally adjusted

	12 Months through August 2005	10 Year High <sup>1</sup>	Date	10 Year Low <sup>1</sup>	Date
<b>Producer Price Index</b>					
<b>Commodities</b>					
All (NSA)	6.28%	9.12%	Jan 2001	-8.21%	Jan 2002
Industrial (NSA)	7.37%	10.59%	Nov 2004	-9.45%	Jan 2002
Farm Products (NSA)	-3.95%	25.43%	Dec 2003	-14.09%	Jul 1997
<b>Finished Goods</b>					
All (SA)	5.05%	5.26%	Nov 2004	-2.74%	May 2002
All Less Energy (SA)	2.17%	3.19%	Feb 2005	-0.94%	Sep 2002
Finished consumer goods (SA)	6.14%	6.41%	Nov 2004	-3.48%	May 2002
Capital equipment (SA)	2.19%	2.85%	Apr 2005	-1.00%	Aug 2002
<b>Intermediate Goods</b>					
All (SA)	6.09%	9.90%	Nov 2004	-4.86%	Feb 2002
Manufacturing (SA)	3.37%	9.17%	Jan 2005	-3.26%	Feb 2002
Construction (SA)	3.12%	10.73%	Jan 2005	-0.73%	Mar 2001
Processed fuels and lubricants (SA)	19.04%	35.65%	Mar 2003	-20.56%	Jan 2002
Containers (SA)	3.02%	15.26%	Sep 1995	-9.00%	Nov 1996
Supplies (SA)	3.12%	4.98%	Dec 1995	-1.40%	Sep 1998
<b>Crude materials</b>					
All (SA)	11.39%	55.10%	Jan 2001	-39.75%	Jan 2002
Foodstuffs and feedstuffs (SA)	-4.05%	28.21%	Oct 2003	-14.54%	Jul 1997
Nonfood except fuel SA	17.54%	62.59%	Feb 2000	-29.01%	Nov 2001
Fuel (SA)	22.15%	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#pci>)

NSA = Not seasonally adjusted

SA = Seasonally adjusted

<sup>1</sup> Education and communication Index started January 1994

<sup>1</sup> Recreation Index started January 1994

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