

# Bianco Research L.L.C.

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1731 North Marcey, Chicago IL 60614

www.biancoresearch.com

## *Inflation Watch*

By Howard L. Simons (847) 304-1511

Ryan Spokas (847) 304-1511

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The Bureau of Labor Statistics released the October 2006 Producer and Consumer Price Index reports on Tuesday, November 14<sup>th</sup> and Thursday, November 16<sup>th</sup>, 2006, 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 **1.31%** from October 2005 to October 2006.

Within the eight major sub-groups:

Five groups are growing faster than the base rate. They comprise **73.01%** of the index:

- Medical Care (4.01%)
- Housing (3.02%)
- Education and communication (2.97%)
- Other Goods and Services (2.89%)
- Food and Beverages (2.60%)

Three are growing slower than the base rate. These groups comprise **26.99%** of the index:

- Recreation (1.18%)
- Apparel (0.59%)
- Transportation (-4.99%)

The commonly watched special index, all items less food and energy (or "core rate"), rose 1.10% in the October to October 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 **3.76%** on a year-over-year basis.

Two other special indices are notable on a year-over-year basis. The energy index **fell 11.22%** while the energy commodities index **fell 17.45%**.

### **Personal Consumption Expenditures**

In the year ending **September** 2006, the PCE Index increased 1.97%. The "core" PCE Index (less food and energy) increased by 2.42%.

### **Producer Price Inflation**

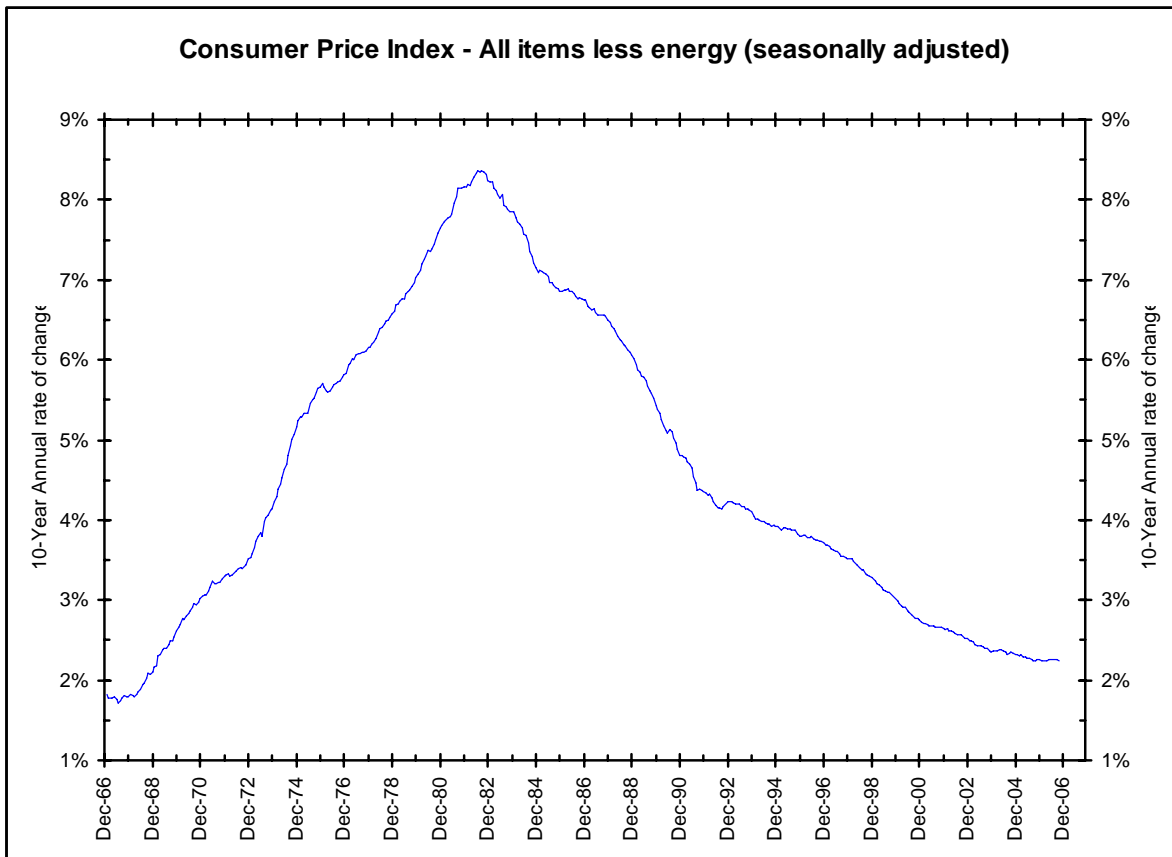
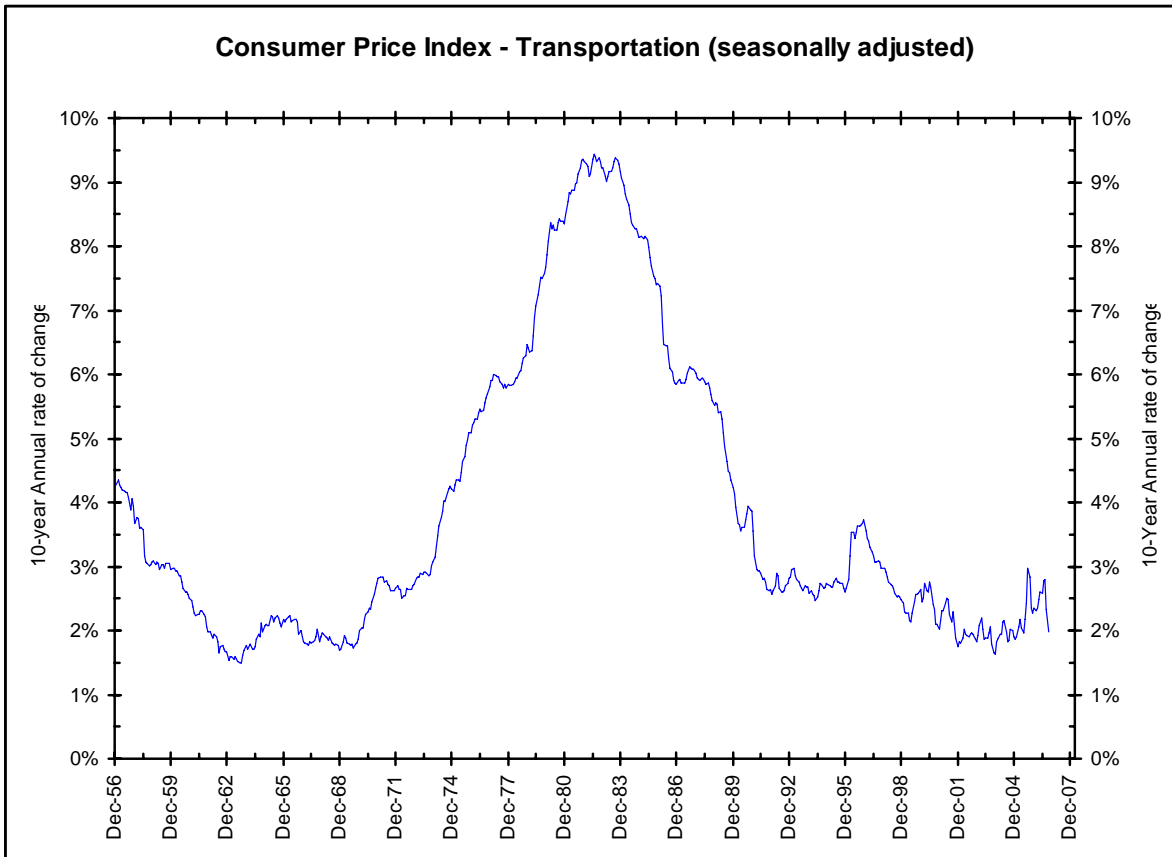
In the twelve months ending October 2006, the Producer Price Index for Finished Goods **decreased 1.50%**, the Producer Price Index for Intermediate Goods **increased 0.56%**, the Producer Price Index for Crude materials **fell 21.97%** and the Producer Price Index for Commodities **fell 2.53%**.

### **Planes, Trains And Automobiles**

Economic data often can be charted using the same finely honed instincts we all bring to our trading endeavors. A glance at the CPI sub-index for Transportation (top chart, following page) begs the question, "Would I sell this?"

The category, which includes motor fuels, fell 3.1% in October from September levels; the motor fuel component fell a striking 11.1%. Other sub-components fell as well: New & Used Vehicles declined 0.3% and public transportation 1.0%. Nothing in the first half of November indicates we will see a repeat of October's decline in motor fuel prices.

The dilemma for any data-driven central bank – and if you don't have one, get one – is what to do in the face of continued increases in the CPI ex-Energy (bottom chart). If your chart-reading instincts tell you to buy the line, your policy response should be to remained biased toward higher short-term interest rates.



## Consumer Price Index

	Annualized through October 2006								Index Weights as of 12/31/2004
	Oct 2006	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)	-0.54%	-3.30%	0.30%	1.31%	2.94%	2.58%	2.46%	3.07%	100.000
All Items (SA)	-0.49%	-2.92%	0.70%	1.31%	2.94%	2.58%	2.46%	3.07%	100.000
Food and beverages (SA)	0.25%	3.52%	3.11%	2.60%	2.69%	2.39%	2.39%	2.95%	15.291
Housing (SA)	-0.05%	2.18%	3.00%	3.02%	3.27%	2.94%	2.88%	3.08%	41.993
Apparel-SA	-0.66%	3.42%	-0.33%	0.59%	-0.44%	-1.12%	-0.93%	0.58%	3.841
Transportation (SA)	-3.10%	-24.90%	-8.14%	-4.99%	3.57%	2.81%	1.99%	2.82%	17.414
Medical care (SA)	0.29%	4.22%	3.69%	4.01%	4.24%	4.24%	3.98%	5.14%	6.132
Recreation (SA)	0.00%	-0.36%	0.90%	1.18%	1.10%	1.10%	1.26%	N/A	5.733
Education and communication (SA)	0.17%	2.41%	2.42%	2.97%	2.22%	2.02%	2.02%	N/A	5.846
Other goods and services (SA)	0.28%	4.43%	3.15%	2.89%	2.63%	2.59%	4.08%	4.94%	3.75
<b>Special indexes</b>									
All items less food (SA)	-0.64%	-4.04%	0.40%	1.10%	2.97%	2.60%	2.47%	3.10%	85.705
All items less energy (SA)	0.15%	2.57%	2.88%	2.75%	2.36%	2.13%	2.25%	2.99%	92.009
All items less food and energy (SA)	0.10%	2.35%	2.75%	2.77%	2.28%	2.07%	2.21%	3.00%	77.714
Energy (SA)	-7.00%	-43.80%	-18.17%	-11.22%	9.72%	8.20%	5.12%	4.02%	7.991
Energy commodities (SA)	-10.68%	-62.84%	-27.36%	-17.45%	12.52%	10.94%	6.43%	5.36%	4.269
Median CPI	0.30%	3.66%	4.28%	3.76%	2.77%	2.69%	2.86%	3.25%	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 October 2006	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)	1.31%	4.69%	Sep 2005	1.07%	Jun 2002
All Items (SA)	1.31%	4.64%	Sep 2005	1.07%	Jun 2002
Food and beverages (SA)	2.60%	4.27%	Nov 1996	1.02%	Jan 2003
Housing (SA)	3.02%	4.80%	Jan 2001	1.87%	Jun 2002
Apparel-SA	0.59%	1.66%	Aug 1998	-3.99%	Apr 2003
Transportation (SA)	-4.99%	14.08%	Sep 2005	-4.99%	Oct 2006
Medical care (SA)	4.01%	4.99%	Dec 2002	2.52%	Oct 1997
Recreation (SA)	1.18%	3.03%	Nov 1996	0.09%	Jun 2005
Education and communication (SA)	2.97%	3.82%	Apr 1997	0.30%	Jun 1999
Other goods and services (SA)	2.89%	10.42%	Jan 1999	0.98%	Sep 2003
<b>Special indexes</b>					
All items less food (SA)	1.10%	4.99%	Sep 2005	0.85%	Feb 2002
All items less energy (SA)	2.75%	2.93%	Nov 1996	1.39%	Apr 2003
All items less food and energy (SA)	2.77%	2.93%	Sep 2006	1.04%	Dec 2003
Energy (SA)	-11.22%	34.25%	Sep 2005	-15.57%	Feb 2002
Energy commodities (SA)	-17.45%	52.47%	Sep 2005	-24.49%	Dec 2001
Median CPI	3.76%	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

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

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

## Personal Consumption Expenditures

	Annualized through September 2006							
	Sep 2006	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)	-0.31%	1.14%	2.48%	1.97%	2.74%	2.43%	2.06%	2.60%
Core PCE - Less Food and Energy	0.18%	2.35%	2.44%	2.42%	2.20%	2.06%	1.77%	2.50%
<b>Durable Goods</b>								
All (SA)	-0.54%	-1.71%	-1.34%	-1.32%	-1.04%	-1.81%	-2.07%	-0.51%
Motor Vehicles and Parts (SA)	-0.14%	0.31%	-0.04%	0.99%	0.84%	-0.02%	-0.06%	1.33%
Furniture and Household Equipment	-0.80%	-4.94%	-4.95%	-4.42%	-3.86%	-4.79%	-5.26%	-3.39%
Other (SA)	-0.86%	0.22%	2.85%	-0.19%	0.19%	-0.19%	-0.53%	0.86%
<b>Nondurable Goods</b>								
All (SA)	-1.45%	-2.20%	2.63%	0.33%	3.18%	2.41%	2.21%	2.44%
Food (SA)	0.24%	2.84%	2.58%	2.49%	2.59%	2.30%	2.26%	2.58%
Clothing and Shoes (SA)	0.74%	2.31%	1.76%	0.94%	-0.31%	-1.07%	-1.21%	-0.29%
Gasoline, Fuel Oil, and Other Energy	-12.67%	-28.44%	6.59%	-10.45%	14.58%	10.77%	7.65%	5.74%
Other (SA)	0.34%	1.60%	1.38%	2.03%	1.55%	1.22%	1.97%	2.59%
<b>Services</b>								
All (SA)	0.30%	3.40%	3.16%	3.46%	3.30%	3.34%	2.88%	3.37%
Housing (SA)	0.33%	4.04%	4.59%	4.17%	3.07%	3.01%	3.12%	3.33%
Household Operation (SA)	0.70%	4.52%	0.27%	4.04%	4.08%	3.30%	2.24%	2.05%
Transportation (SA)	-0.35%	-0.07%	2.92%	2.95%	3.21%	3.02%	2.40%	3.16%
Medical care (SA)	0.11%	3.07%	2.91%	2.86%	3.31%	3.29%	3.04%	4.21%
Recreation (SA)	0.07%	1.61%	3.02%	2.86%	2.85%	2.76%	2.96%	3.27%
Other (SA)	0.58%	4.15%	3.21%	3.51%	3.40%	4.02%	2.82%	3.20%

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 September 2006	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)	1.97%	3.80%	Sep 2005	0.74%	Jan 2002
Core PCE - Less Food and Energy (SA)	2.42%	2.48%	Aug 2006	0.97%	Jan 2002
<b>Durable Goods</b>					
All (SA)	-1.32%	-0.18%	Dec 2004	-4.29%	Oct 2003
Motor Vehicles and Parts (SA)	0.99%	2.72%	Jan 2005	-3.60%	Oct 2003
Furniture and Household Equipment (SA)	-4.42%	-2.79%	Oct 2004	-7.09%	Sep 2003
Other (SA)	-0.19%	1.30%	Jul 2006	-2.25%	May 2003
<b>Non-Durable Goods</b>					
All (SA)	0.33%	6.68%	Sep 2005	-0.78%	Dec 2001
Food (SA)	2.49%	3.56%	May 2004	1.10%	Jan 2003
Clothing and Shoes (SA)	0.94%	1.24%	Aug 1997	-3.93%	Jan 2002
Gasoline, Fuel Oil, and Other Energy (SA)	-10.45%	52.54%	Sep 2005	-23.69%	Dec 2001
Other (SA)	2.03%	5.53%	Jan 1999	-0.41%	Jun 2003
<b>Services</b>					
All (SA)	3.46%	3.68%	Oct 2005	1.88%	Jun 1998
Housing (SA)	4.17%	4.32%	Feb 2002	2.07%	Jan 2004
Household Operation (SA)	4.04%	9.74%	Jan 2006	-2.36%	Jun 2002
Transportation (SA)	2.95%	5.31%	Sep 2005	0.41%	Jan 2002
Medical care (SA)	2.95%	4.62%	Feb 2004	2.12%	Nov 1997
Recreation (SA)	2.86%	4.16%	Sep 2000	2.04%	Jul 1998
Other (SA)	2.86%	6.53%	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#pci>)

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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 October 2006								Index Weights as of 12/31/2004
	Oct 2006	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years	20 Years	
<b>Producer Price Index</b>									
<b>Commodities</b>									
All (NSA)	-2.06%	-11.66%	-2.78%	-2.53%	5.14%	4.45%	2.38%	2.46%	100.000
Industrial (NSA)	-2.42%	-14.10%	-4.22%	-3.17%	5.85%	4.73%	2.62%	2.59%	86.213
Farm Products (NSA)	2.75%	29.03%	22.33%	6.40%	-0.27%	4.00%	0.24%	1.37%	13.787
<b>Finished Goods</b>									
All (SA)	-1.63%	-10.90%	-4.19%	-1.50%	2.80%	2.46%	1.73%	2.11%	100.000
All Less Energy (SA)	-0.82%	-0.76%	0.13%	0.83%	1.44%	1.29%	1.14%	1.75%	82.918
Finished consumer goods (SA)	-1.88%	-13.55%	-5.34%	-2.23%	3.25%	3.01%	2.15%	2.36%	74.422
Capital equipment (SA)	-0.88%	-2.16%	-0.55%	0.76%	1.43%	0.93%	0.54%	1.40%	25.578
<b>Intermediate Goods</b>									
All (SA)	-1.09%	-8.15%	-0.25%	0.56%	6.62%	5.01%	2.60%	2.56%	100.000
Manufacturing (SA)	0.00%	0.51%	6.07%	6.10%	6.67%	4.68%	2.12%	2.21%	46.892
Construction (SA)	-0.21%	1.48%	4.77%	6.47%	7.10%	4.90%	2.84%	2.88%	12.827
Processed fuels and lubricants (SA)	-5.95%	-39.24%	-20.07%	-16.53%	9.63%	8.82%	4.94%	4.08%	16.978
Containers (SA)	0.28%	1.59%	5.28%	6.23%	4.99%	3.06%	2.54%	2.35%	3.164
Supplies (SA)	0.44%	3.09%	3.10%	3.19%	3.76%	2.73%	1.54%	2.05%	20.138
<b>Crude materials</b>									
All (SA)	-10.51%	-38.83%	-18.42%	-21.97%	6.21%	10.99%	3.97%	3.23%	100.000
Foodstuffs and feedstuffs (SA)	3.15%	24.32%	20.52%	3.32%	-0.82%	3.48%	0.32%	1.32%	39.856
Nonfood except fuel (SA)	-4.91%	-41.95%	-10.77%	5.78%	18.90%	16.97%	6.24%	5.16%	33.348
Fuel (SA)	-34.09%	-74.64%	-58.31%	-61.03%	-1.79%	14.13%	6.94%	N/A	26.796

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

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<b>Producer Price Index</b>					
<b>Commodities</b>					
All (NSA)	-2.53%	10.80%	Oct 2005	-8.21%	Jan 2002
Industrial (NSA)	-3.17%	12.38%	Oct 2005	-9.45%	Jan 2002
Farm Products (NSA)	6.40%	25.43%	Dec 2003	-14.09%	Jul 1997
<b>Finished Goods</b>					
All (SA)	-1.50%	6.38%	Sep 2005	-2.74%	May 2002
All Less Energy (SA)	0.83%	3.19%	Feb 2005	-0.94%	Sep 2002
Finished consumer goods (SA)	-2.23%	7.97%	Sep 2005	-3.48%	May 2002
Capital equipment (SA)	0.76%	2.85%	Apr 2005	-1.00%	Aug 2002
<b>Intermediate Goods</b>					
All (SA)	0.56%	10.50%	Oct 2005	-4.86%	Feb 2002
Manufacturing (SA)	6.10%	9.76%	Aug 2006	-3.26%	Feb 2002
Construction (SA)	6.47%	10.73%	Jan 2005	-0.73%	Mar 2001
Processed fuels and lubricants (SA)	-16.53%	35.91%	Oct 2005	-20.56%	Jan 2002
Containers (SA)	6.23%	8.31%	Mar 2005	-9.00%	Nov 1996
Supplies (SA)	3.19%	4.67%	Jul 2004	-1.40%	Sep 1998
<b>Crude materials</b>					
All (SA)	-21.97%	55.10%	Jan 2001	-39.75%	Jan 2002
Foodstuffs and feedstuffs (SA)	3.32%	28.21%	Oct 2003	-14.54%	Jul 1997
Nonfood except fuel SA)	5.78%	62.59%	Feb 2000	-29.01%	Nov 2001
Fuel (SA)	-61.03%	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#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

## 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](mailto: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](mailto:jbianco@biancoresearch.com)

**Strategist/Analysts** (847) 304-1511

Howard L. Simons [hsimons@biancoresearch.com](mailto:hsimons@biancoresearch.com)

Greg Blaha [gblaha@biancoresearch.com](mailto:gblaha@biancoresearch.com)

Ryan Spokas [rspokas@biancoresearch.com](mailto:rspokas@biancoresearch.com)

### **For subscription/service Information:**

**Arbor Research & Trading, Inc.**

**Director of Sales & Marketing** (800) 625-1860

Fritz Handler [fritz.handler@arborresearch.com](mailto:fritz.handler@arborresearch.com)

Norma Mytys [nmytys@arborresearch.com](mailto:nmytys@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](mailto:inforequest@arborresearch.com)

<http://www.arborresearch.com>

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

#### Chicago Sales Office

1 North LaSalle Street, 40<sup>th</sup> Floor

Chicago IL 60602

Daniel Lustig [dan.lustig@arborresearch.com](mailto:dan.lustig@arborresearch.com)

Phone (866) 877-0266

#### New York Sales Office

The Chrysler Building

405 Lexington Avenue

New York, NY 10174

Edward T. McElwreath [ed.mcelwreath@arborresearch.com](mailto: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) 304-1560

James L. Perry [james.perry@arborresearch.com](mailto:james.perry@arborresearch.com)

Brent E. Glendinning [brent.glendinning@arborresearch.com](mailto:brent.glendinning@arborresearch.com)

#### London Sales Office

4 Broadgate

2<sup>nd</sup> Floor

Room 57

London England EC2M 2QY

Neil Tritton [neil.tritton@arborresearch.com](mailto:neil.tritton@arborresearch.com)

Ben Gibson [ben.gibson@arborresearch.com](mailto:ben.gibson@arborresearch.com)

Phone 44-207-965-4784

Fax 44-207-965-4787