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Inflation Watch

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The Bureau of Labor Statistics released the September 2007 Producer and Consumer Price Index reports on Friday, October 12th and Wednesday, October 17th, 2007, 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 **2.76%** from September 2006 to September 2007.

Within the eight major sub-groups:

Four groups are growing faster than the base rate. They comprise 67.44% of the index:

- Medical Care (4.51%)
- Food and Beverages (4.37%)
- Other Goods and Services (3.56%)
- Housing (2.82%)

Four are growing slower than the base rate. These groups comprise 32.56% of the index:

- Education and Communication (2.39%)
- Transportation (2.27%)
- Recreation (0.18%)
- Apparel (-1.80%)

The commonly watched special index, all items less food and energy (or "core rate"), rose 2.08% in the September to September 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 **2.73%** on a year-over-year basis.

Two other special indices are notable on a year-over-year basis. The energy index **rose 5.52%** while the energy commodities index **rose 9.00%**.

Personal Consumption Expenditures

In the year ending **August** 2007, the PCE Index increased 1.76%. The "core" PCE Index (less food and energy) increased by 1.76%.

Producer Price Inflation

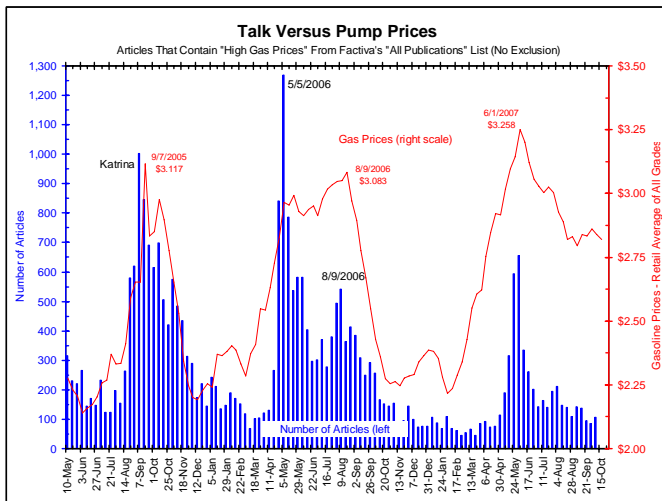
In the twelve months ending September 2007, the Producer Price Index for Finished Goods increased 1.25%, the Producer Price Index for Intermediate Goods increased 4.01%, the Producer Price Index for Crude Materials rose 11.36%, and the Producer Price Index for Commodities rose 4.90%.

Energy Prices and Inflation

In a recent September [Commentary](#) on refining margins, we concluded:

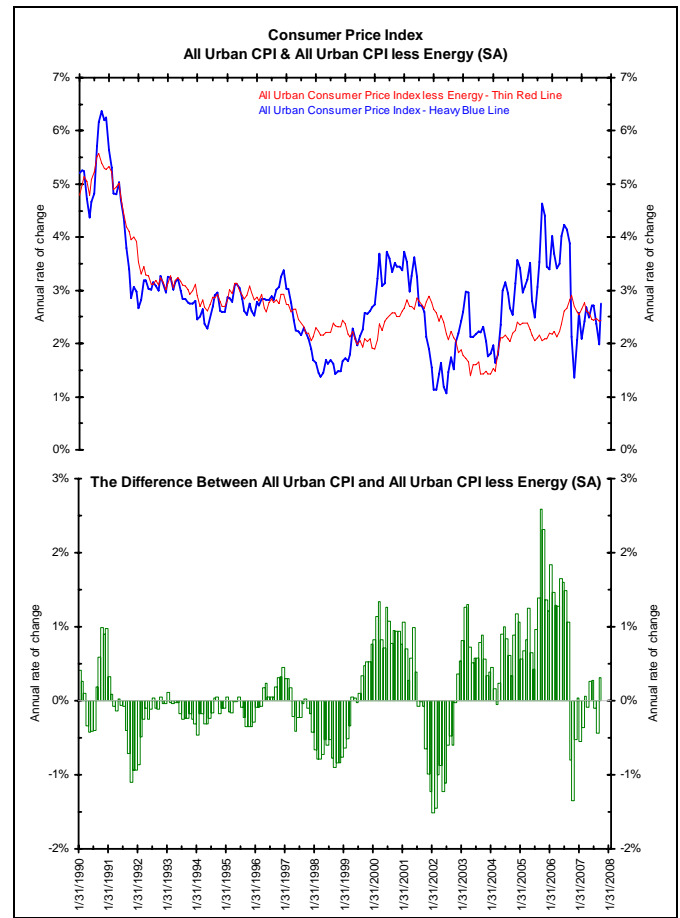
The recent sharp rally in crude oil has yet to be reflected fully in the price for retail gasoline. The experience of recent years, discussed in a May Commentary, is retail gasoline prices produce more headlines than economic damage.

Retail gasoline prices (red line) were unusually high this past spring and early summer as the result of refinery outages, the switchover to summer gasoline blends and other factors. They moved far ahead of crude oil prices. **Their recent slow rise relative to crude oil prices, therefore, is simply a restoration to more-normal refining margins. Once this adjustment is complete, look for a more direct linkage between crude oil and gasoline prices.**



The Bureau of Labor Statistics derives its Energy CPI Index by combining the Motor Fuels Index and the Household Fuels Index. The net result reflects both retail gasoline and home heating fuel prices.

Because the energy component of CPI keys off of these two measures and **retail gasoline prices have remained relatively tame per the paragraph above**, the energy component of CPI has yet to affect the overall index substantially. This can be seen in the right-hand chart. The green bars in the lower panel show the difference between All Urban CPI and All Urban CPI *less* Energy. In the year ending September 2007, energy accounted for 0.32% of the 2.76% headline number. During the post-Katrina spike in retail gasoline prices, energy accounted for 2.59% of the 4.64% headline number.



Conclusion

The Motor Fuels component of the CPI will rise in the months to come barring a significant decline in crude oil prices. The Household Fuels index, which is more dominated by natural gas than by heating oil, will benefit from favorable year-over-year comparisons in winter natural gas prices; the six-month strip is trading well under October 2005 and October 2006 levels. This could change extremely quickly should the weather turn unfavorable.

This leaves a combination of upward pressure on Motor Fuels subject to news-driven prices for crude oil and downward pressure on Household Fuels, subject to the weather. The net effect will be volatile and its reporting after grinding in the BLS' statistical mills will please no one.

Consumer Price Index

	Annualized through September 2007								Index Weights as of 12/31/2006
	Sep 2007	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years	20 Years	
Consumer Price Index									
All Urban Consumers									
All Items (NSA)	0.28%	0.27%	3.08%	2.76%	3.16%	2.87%	2.61%	3.02%	100.000
All Items (SA)	0.27%	0.98%	3.09%	2.76%	3.17%	2.87%	2.60%	3.03%	100.000
Food and beverages (SA)	0.48%	4.65%	4.80%	4.37%	3.10%	3.03%	2.64%	2.97%	14.992
Housing (SA)	0.26%	1.64%	2.32%	2.82%	3.34%	3.05%	2.94%	3.06%	42.691
Owners' Equivalent Rent (SA)	0.28%	2.74%	2.30%	2.93%	3.05%	2.74%	3.06%	3.44%	23.830
Apparel-SA	0.25%	0.57%	-2.18%	-1.80%	-0.52%	-0.92%	-1.16%	0.29%	3.726
Transportation (SA)	0.11%	-5.62%	4.84%	2.27%	4.21%	3.68%	2.47%	2.78%	17.249
Medical care (SA)	0.34%	6.00%	4.92%	4.51%	4.27%	4.24%	4.17%	5.07%	6.281
Recreation (SA)	0.28%	0.26%	0.68%	0.18%	0.85%	0.98%	1.08%	N/A	5.552
Education and communication (SA)	0.10%	2.66%	3.07%	2.39%	2.38%	2.03%	1.97%	N/A	6.034
Other goods and services (SA)	0.43%	2.13%	2.76%	3.56%	3.04%	2.45%	3.98%	4.85%	3.476
Special indexes									
All items less food (SA)	0.23%	0.37%	2.79%	2.47%	3.16%	2.83%	2.58%	3.04%	86.115
All items less energy (SA)	0.27%	2.82%	2.75%	2.44%	2.47%	2.21%	2.28%	2.91%	91.285
All items less food and energy (SA)	0.22%	2.45%	2.36%	2.08%	2.34%	2.05%	2.21%	2.91%	77.401
Energy (SA)	0.28%	-14.77%	6.43%	5.52%	10.66%	10.72%	6.27%	4.22%	8.715
Energy commodities (SA)	0.44%	-20.24%	15.77%	9.00%	14.08%	14.68%	8.40%	5.50%	4.685
Median CPI	0.20%	2.43%	2.43%	2.73%	2.94%	2.59%	2.84%	3.19%	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#cp>)

NSA = Not seasonally adjusted

SA = Seasonally adjusted

	12 Months through September 2007	10 Year High ¹	Date	10 Year Low ¹	Date
Consumer Price Index					
All Urban Consumers					
All Items (NSA)	2.76%	4.69%	Sep 2005	1.07%	Jun 2002
All Items (SA)	2.76%	4.64%	Sep 2005	1.07%	Jun 2002
Food and beverages (SA)	4.37%	4.37%	Sep 2007	1.02%	Jan 2003
Housing (SA)	2.82%	4.80%	Jan 2001	1.87%	Jun 2002
Owners' Equivalent Rent (SA)	2.93%	4.59%	Feb 2002	1.88%	Jan 2004
Apparel-SA	-1.80%	2.46%	Feb 2007	-3.99%	Apr 2003
Transportation (SA)	2.27%	14.08%	Sep 2005	-4.83%	Oct 2006
Medical care (SA)	4.51%	4.99%	Dec 2002	2.52%	Oct 1997
Recreation (SA)	0.18%	2.14%	Apr 2001	-0.10%	Aug 2007
Education and communication (SA)	2.39%	3.62%	Sep 2001	0.30%	Jun 1999
Other goods and services (SA)	3.56%	10.42%	Jan 1999	0.98%	Sep 2003
Special indexes					
All items less food (SA)	2.47%	4.99%	Sep 2005	0.85%	Feb 2002
All items less energy (SA)	2.44%	2.91%	Sep 2006	1.39%	Apr 2003
All items less food and energy (SA)	2.08%	2.93%	Sep 2006	1.04%	Dec 2003
Energy (SA)	5.52%	34.25%	Sep 2005	-15.57%	Feb 2002
Energy commodities (SA)	9.00%	52.47%	Sep 2005	-24.49%	Dec 2001
Median CPI	2.73%	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#cp>)

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 August 2007							
	Aug 2007	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years	20 Years
Personal Consumption Expenditures								
PCE								
All Items (SA)	-0.08%	0.60%	2.75%	1.76%	2.68%	2.53%	2.14%	2.53%
Core PCE - Less Food and Energy	0.09%	1.45%	1.31%	1.76%	2.11%	1.94%	1.81%	2.41%
Durable Goods								
All (SA)	-0.38%	-1.79%	-1.89%	-2.18%	-1.21%	-1.86%	-2.00%	-0.74%
Motor Vehicles and Parts (SA)	0.26%	2.01%	1.33%	-0.69%	0.79%	-0.26%	-0.08%	1.08%
Furniture and Household Equipment	-0.77%	-5.99%	-5.30%	-4.73%	-4.25%	-4.62%	-5.08%	-3.59%
Other (SA)	-0.89%	-0.94%	-1.62%	-0.18%	0.44%	-0.03%	-0.42%	0.69%
Nondurable Goods								
All (SA)	-0.46%	-1.62%	5.45%	0.99%	3.17%	2.93%	2.36%	2.37%
Food (SA)	0.39%	4.97%	4.51%	4.05%	2.82%	2.78%	2.46%	2.63%
Clothing and Shoes (SA)	-0.47%	-3.27%	-4.69%	-1.82%	-1.01%	-1.22%	-1.49%	-0.55%
Gasoline, Fuel Oil, and Other Energy	-4.53%	-24.21%	36.91%	-5.94%	13.86%	14.62%	8.42%	5.37%
Other (SA)	0.07%	0.52%	0.18%	0.88%	1.50%	0.98%	1.97%	2.43%
Services								
All (SA)	0.16%	2.16%	2.35%	2.90%	3.21%	3.23%	2.92%	3.34%
Housing (SA)	0.19%	2.90%	2.75%	3.38%	3.26%	2.94%	3.15%	3.27%
Household Operation (SA)	-0.35%	-1.18%	1.02%	2.82%	4.06%	3.63%	2.36%	2.17%
Transportation (SA)	0.45%	7.07%	4.28%	2.37%	3.44%	3.20%	2.62%	3.04%
Medical care (SA)	0.13%	2.18%	1.99%	3.08%	3.16%	3.51%	3.14%	4.15%
Recreation (SA)	0.01%	-0.09%	2.37%	0.82%	2.34%	2.43%	2.76%	3.14%
Other (SA)	0.33%	2.07%	2.35%	2.94%	3.08%	3.29%	2.79%	3.23%

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 2007	10 Year High ¹	Date	10 Year Low ¹	Date
Personal Consumption Expenditures					
PCE					
All Items (SA)	1.76%	3.88%	Sep 2005	0.74%	Jan 2002
Core PCE - Less Food and Energy (SA)	1.76%	2.46%	Feb 2007	0.97%	Jan 2002
Durable Goods					
All (SA)	-2.18%	-0.33%	Jan 2005	-4.29%	Oct 2003
Motor Vehicles and Parts (SA)	-0.69%	2.39%	Jan 2005	-3.60%	Oct 2003
Furniture and Household Equipment (SA)	-4.73%	-2.80%	Oct 2004	-7.09%	Sep 2003
Other (SA)	-0.18%	2.14%	Feb 2007	-2.25%	May 2003
Non-Durable Goods					
All (SA)	0.99%	6.76%	Sep 2005	-0.78%	Dec 2001
Food (SA)	4.05%	4.05%	Aug 2007	1.10%	Jan 2003
Clothing and Shoes (SA)	-1.82%	1.57%	Feb 2007	-3.93%	Jan 2002
Gasoline, Fuel Oil, and Other Energy (SA)	-5.94%	52.94%	Sep 2005	-23.69%	Dec 2001
Other (SA)	0.88%	5.53%	Jan 1999	-0.41%	Jun 2003
Services					
All (SA)	2.90%	3.77%	Oct 2005	1.88%	Jun 1998
Housing (SA)	3.38%	4.37%	Jan 2007	2.03%	Jan 2004
Household Operation (SA)	2.82%	9.63%	Jan 2006	-2.36%	Jun 2002
Transportation (SA)	2.37%	5.30%	Sep 2005	0.41%	Jan 2002
Medical care (SA)	2.37%	4.61%	Feb 2004	2.12%	Nov 1997
Recreation (SA)	3.08%	4.16%	Sep 2000	0.82%	Aug 2007
Other (SA)	0.82%	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>)

NSA = Not seasonally adjusted

SA = Seasonally adjusted

¹ Education and communication Index started January 1994

¹ Recreation Index started January 1994

Producer Price Index

	Annualized through September 2007								Index Weights as of 12/31/2006
	Sep 2007	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years	20 Years	
Producer Price Index									
Commodities									
All (NSA)	0.64%	-0.46%	5.02%	4.90%	5.51%	5.62%	3.13%	2.61%	100.000
Industrial (NSA)	0.46%	-1.58%	4.84%	3.84%	5.62%	5.66%	3.24%	2.68%	85.907
Farm Products (NSA)	4.57%	15.24%	8.42%	21.70%	7.24%	7.99%	2.79%	2.13%	14.093
Finished Goods									
All (SA)	-1.88%	-10.15%	-2.42%	1.25%	2.92%	3.11%	2.11%	2.14%	100.000
All Less Energy (SA)	0.43%	2.23%	1.74%	2.96%	2.31%	2.14%	1.55%	1.86%	81.175
Finished consumer goods (SA)	1.52%	1.62%	4.39%	5.19%	4.67%	4.50%	2.97%	2.59%	75.947
Capital equipment (SA)	-0.07%	0.27%	1.21%	1.63%	1.80%	1.51%	0.81%	1.46%	24.053
Intermediate Goods									
All (SA)	0.41%	-0.70%	4.84%	4.01%	5.74%	5.84%	3.15%	2.59%	100.000
Manufacturing (SA)	0.06%	-1.46%	6.01%	3.16%	5.11%	5.17%	2.45%	2.17%	44.621
Construction (SA)	-0.16%	-0.21%	2.10%	1.15%	4.17%	4.90%	2.78%	2.82%	13.954
Processed fuels and lubricants (SA)	1.52%	-2.94%	7.04%	9.89%	11.77%	12.04%	7.04%	4.30%	18.506
Containers (SA)	0.00%	2.93%	3.17%	1.52%	3.39%	3.46%	2.93%	2.27%	2.762
Supplies (SA)	0.19%	2.50%	2.38%	2.92%	3.10%	3.05%	1.76%	2.04%	20.157
Crude materials									
All (SA)	0.15%	-6.55%	2.49%	11.36%	9.87%	13.07%	6.57%	3.86%	100.000
Foodstuffs and feedstuffs (SA)	2.37%	12.22%	11.94%	25.33%	7.61%	8.63%	3.22%	2.23%	33.721
Nonfood except fuel (SA)	4.39%	58.03%	37.06%	19.55%	17.38%	18.60%	9.67%	5.22%	37.437
Fuel (SA)	-9.73%	-66.74%	-41.29%	-14.62%	1.49%	11.10%	7.26%	N/A	28.843

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

	12 Months through September 2007	10 Year High ¹	Date	10 Year Low ¹	Date
Producer Price Index					
Commodities					
All (NSA)	4.90%	10.80%	Oct 2005	-8.21%	Jan 2002
Industrial (NSA)	3.84%	12.38%	Oct 2005	-9.45%	Jan 2002
Farm Products (NSA)	21.70%	29.96%	May 2007	-11.04%	Apr 2002
Finished Goods					
All (SA)	1.25%	6.79%	Sep 2005	-2.82%	Jan 2002
All Less Energy (SA)	2.96%	3.37%	Jul 2007	-0.94%	Sep 2002
Finished consumer goods (SA)	5.19%	8.36%	Sep 2005	-3.64%	Jan 2002
Capital equipment (SA)	1.63%	2.77%	May 2005	-1.00%	Aug 2002
Intermediate Goods					
All (SA)	4.01%	10.79%	Oct 2005	-4.84%	Jan 2002
Manufacturing (SA)	3.16%	9.83%	Aug 2006	-3.26%	Feb 2002
Construction (SA)	1.15%	10.88%	Jan 2005	-0.73%	Mar 2001
Processed fuels and lubricants (SA)	9.89%	37.59%	Oct 2005	-20.56%	Jan 2002
Containers (SA)	1.52%	8.31%	Mar 2005	-2.75%	Feb 1999
Supplies (SA)	2.92%	4.59%	Jul 2004	-1.40%	Sep 1998
Crude materials					
All (SA)	11.36%	55.06%	Jan 2001	-39.73%	Jan 2002
Foodstuffs and feedstuffs (SA)	25.33%	31.81%	May 2007	-11.75%	Dec 1998
Nonfood except fuel SA)	19.55%	62.67%	Feb 2000	-29.32%	Nov 2001
Fuel (SA)	-14.62%	223.46%	Jan 2001	-67.56%	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#cp1>)

NSA = Not seasonally adjusted

SA = Seasonally adjusted

¹ Education and communication Index started January 1994

¹ Recreation Index started January 1994

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