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Volume 8, No. 3 | 1731 North Marcey, Chicago IL 60614 | www.biancoresearch.com

Inflation Watch

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March 14, 2008

The Bureau of Labor Statistics released the February 2008 Consumer Price Index report on and Friday, March 14th, 2008. The Producer Price Index was released on Tuesday, March 18th.

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 **4.03%** from February 2008 to February 2008.

Within the eight major sub-groups:

Three groups are growing faster than the base rate. They comprise 38.83% of the index:

- Transportation (10.61%)
- Medical Care (4.48%)
- Food and Beverages (4.47%)

Five are growing slower than the base rate. These groups comprise 61.17% of the index:

- Education and Communication (3.22%)
- Other Goods and Services (2.97%)
- Housing (2.74%)
- Recreation (1.10%)
- Apparel (-1.20%)

The commonly watched special index, all items less food and energy (or "core rate"), rose 2.26% in the February to February 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 **2.84%** on a year-over-year basis.

Two other special indices are notable on a year-over-year basis. The energy index **rose 21.40%** while the energy commodities index **rose 38.00%.**

Personal Consumption Expenditures

In the year ending **January** 2008, the PCE Index increased 3.68%. The "core" PCE Index (less food and energy) increased by 2.18%.

Producer Price Inflation

In the twelve months ending **February** 2008, the Producer Price Index for Finished Goods increased 6.95%, the Producer Price Index for Intermediate Goods increased 9.32%, the Producer Price Index for Crude Materials rose 24.91%, and the Producer Price Index for Commodities rose 9.35%.

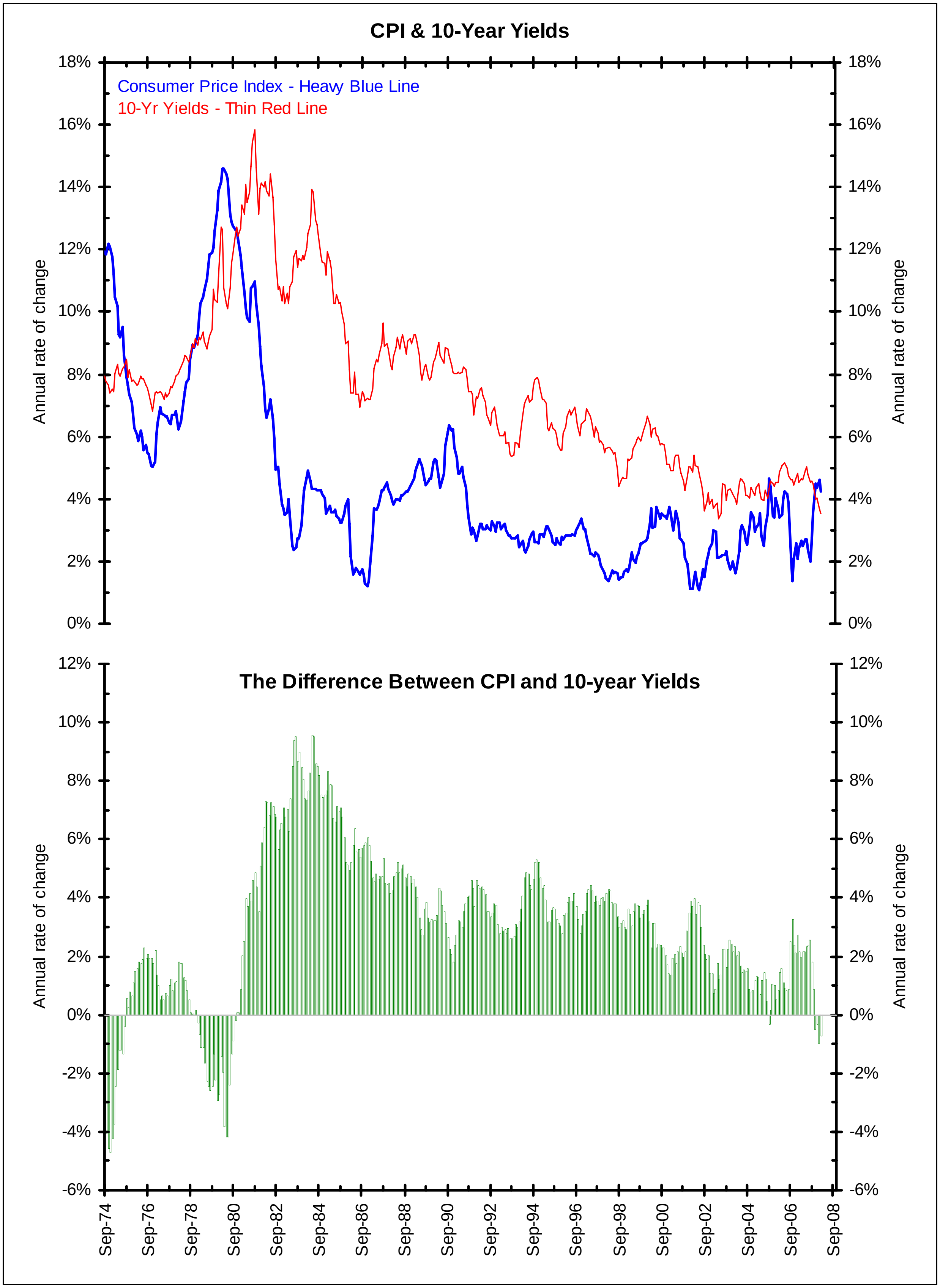
Inflation and Treasury Yields

The combination of rising inflation and easy monetary policy sounds like a prescription for disaster for long-term Treasuries. Yet, as the chart on the following page shows, not only are Treasury yields low, but they are now below the overall inflation rate for the first time since 1980 (we are excluding the October 2005 period because the inflation statistics were temporarily distorted by hurricane Katrina).

In a recent **Commentary**, we offered our opinion on why this is happening:

Inflation is a problem the Federal Reserve has chosen to ignore for the moment. Investors do not care about inflation either; they are so scared of the credit crisis they are hiding in Treasuries as they try to figure out what to do next. The result is U.S. Treasuries are overvalued and are yielding less than the inflation rate for the first time in 27 years.

In the perfect world, we would like to have an "all clear" signal that tells us the crisis is over. In the current credit crisis, we might have one. It will be when investors rush out of Treasuries as riskier assets return to favor and as economists warn the inflation rate is way too high for Federal Reserve policy to remain focused on the credit crisis. The final "panic point" of this crisis might be soaring Treasury yields. How fitting that a crisis in "risky" assets might end when we have a crisis in "safe" assets.


CPI & 10-Year Yields
Consumer Price Index - Heavy Blue Line
10-Yr Yields - Thin Red Line
Annual rate of change
18%
16%
14%
12%
10%
8%
6%
4%
2%
0%
The Difference Between CPI and 10-year Yields
12%
10%
8%
6%
4%
2%
0%
-2%
-4%
-6%
Sep-74
Sep-76
Sep-78
Sep-80
Sep-82
Sep-84
Sep-86
Sep-88
Sep-90
Sep-92
Sep-94
Sep-96
Sep-98
Sep-00
Sep-02
Sep-04
Sep-06
Sep-08

Consumer Price Index

	Feb 2008	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years	20 Years	Index Weights as of 12/31/2007
		Annualized through February 2008							
Consumer Price Index									
All Urban Consumers									
All Items (NSA)	0.29%	2.92%	3.67%	4.03%	3.34%	2.94%	2.72%	3.05%	100.000
All Items (SA)	0.03%	3.15%	4.71%	4.25%	3.45%	3.01%	2.75%	3.07%	100.000
Food and beverages (SA)	0.37%	4.62%	4.51%	4.47%	3.39%	3.18%	2.72%	3.00%	14.914
Housing (SA)	0.18%	2.77%	3.25%	2.74%	3.39%	3.07%	2.99%	3.06%	42.427
Owners' Equivalent Rent (SA)	0.14%	2.64%	2.98%	2.63%	3.16%	2.75%	3.05%	3.37%	23.942
Apparel-SA	-0.34%	0.76%	2.42%	-1.20%	-0.18%	-0.37%	-1.08%	0.31%	3.731
Transportation (SA)	-0.68%	3.52%	10.77%	10.61%	5.28%	4.06%	3.15%	3.03%	17.688
Medical care (SA)	0.10%	3.88%	4.56%	4.48%	4.26%	4.27%	4.22%	5.04%	6.231
Recreation (SA)	0.12%	1.42%	2.15%	1.10%	1.08%	0.95%	1.11%	N/A	5.647
Education and communication (SA)	0.14%	3.19%	2.62%	3.22%	2.61%	2.11%	2.02%	N/A	6.086
Other goods and services (SA)	0.24%	3.85%	3.72%	2.97%	3.05%	2.70%	3.84%	4.77%	3.277
Special indexes									
All items less food (SA)	-0.03%	2.90%	4.72%	4.20%	3.47%	2.97%	2.75%	3.08%	86.167
All items less energy (SA)	0.09%	2.68%	2.80%	2.60%	2.53%	2.29%	2.29%	2.90%	90.302
All items less food and energy (SA)	0.04%	2.32%	2.48%	2.26%	2.36%	2.13%	2.20%	2.88%	76.469
Energy (SA)	-0.54%	7.62%	24.09%	21.40%	13.19%	10.73%	8.12%	4.87%	9.698
Energy commodities (SA)	-1.92%	8.94%	36.98%	38.00%	18.39%	14.24%	11.26%	6.42%	5.834
Median CPI	0.10%	2.84%	3.25%	2.84%	3.08%	2.67%	2.86%	3.18%	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 February 2008	10 Year High [1]	Date	10 Year Low [1]	Date
Consumer Price Index					
All Urban Consumers					
All Items (NSA)	4.03%	4.69%	Sep 2005	1.07%	Jun 2002
All Items (SA)	4.25%	4.64%	Sep 2005	1.07%	Jun 2002
Food and beverages (SA)	4.47%	4.93%	Dec 2007	1.02%	Jan 2003
Housing (SA)	2.74%	4.80%	Jan 2001	1.87%	Jun 2002
Owners' Equivalent Rent (SA)	2.63%	4.59%	Feb 2002	1.88%	Jan 2004
Apparel-SA	-1.20%	2.46%	Feb 2007	-3.99%	Apr 2003
Transportation (SA)	10.61%	14.08%	Sep 2005	-4.83%	Oct 2006
Medical care (SA)	4.48%	5.15%	Dec 2007	2.75%	Mar 1998
Recreation (SA)	1.10%	2.14%	Apr 2001	-0.10%	Aug 2007
Education and communication (SA)	3.22%	3.62%	Sep 2001	0.30%	Jun 1999
Other goods and services (SA)	2.97%	10.42%	Jan 1999	0.98%	Sep 2003
Special indexes					
All items less food (SA)	4.20%	4.99%	Sep 2005	0.85%	Feb 2002
All items less energy (SA)	2.60%	2.91%	Sep 2006	1.39%	Apr 2003
All items less food and energy (SA)	2.26%	2.93%	Sep 2006	1.04%	Dec 2003
Energy (SA)	21.40%	34.25%	Sep 2005	-15.57%	Feb 2002
Energy commodities (SA)	38.00%	52.47%	Sep 2005	-24.49%	Dec 2001
Median CPI	2.84%	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

	Jan 2008	Annualized through January 2008						
		3 Months	6 Months	1 Year	3 Years	5 Years	10 Years	20 Years
Personal Consumption Expenditures								
PCE								
All Items (SA)	0.37%	5.42%	3.81%	3.68%	3.02%	2.79%	2.30%	2.56%
Core PCE - Less Food and Energy	0.30%	2.97%	2.81%	2.18%	2.23%	2.12%	1.88%	2.39%
Durable Goods								
All (SA)	0.12%	-1.43%	-1.71%	-1.33%	-1.48%	-1.63%	-1.95%	-0.76%
Motor Vehicles and Parts (SA)	-0.20%	-1.06%	0.29%	0.34%	0.13%	0.00%	-0.06%	1.09%
Furniture and Household Equipment	0.34%	-3.69%	-4.81%	-4.16%	-4.43%	-4.49%	-5.05%	-3.65%
Other (SA)	0.31%	2.11%	0.30%	0.81%	0.89%	0.29%	-0.30%	0.63%
Nondurable Goods								
All (SA)	0.65%	12.27%	6.37%	6.83%	4.16%	3.52%	2.72%	2.49%
Food (SA)	0.65%	4.33%	4.26%	4.65%	3.17%	3.03%	2.55%	2.66%
Clothing and Shoes (SA)	0.47%	4.72%	1.55%	-0.83%	-0.53%	-0.63%	-1.34%	-0.58%
Gasoline, Fuel Oil, and Other Energy	1.29%	81.30%	27.19%	38.82%	19.97%	16.40%	10.87%	6.37%
Other (SA)	0.39%	3.62%	2.72%	1.41%	1.62%	1.33%	2.03%	2.40%
Services								
All (SA)	0.28%	3.47%	3.61%	3.12%	3.35%	3.32%	2.99%	3.32%
Housing (SA)	0.31%	3.58%	3.25%	3.13%	3.40%	2.98%	3.17%	3.23%
Household Operation (SA)	-0.14%	1.19%	1.05%	2.14%	3.90%	3.55%	2.46%	2.24%
Transportation (SA)	0.32%	4.59%	2.61%	3.28%	3.36%	3.16%	2.52%	2.99%
Medical care (SA)	0.20%	2.95%	3.55%	2.80%	3.21%	3.55%	3.20%	4.09%
Recreation (SA)	0.27%	3.98%	3.46%	3.08%	2.51%	2.54%	2.86%	3.13%
Other (SA)	0.48%	4.46%	5.39%	3.85%	3.50%	3.60%	2.95%	3.22%

Data Sources: Bureau of Labor Statistics (http://stats.bls.gov/datahome.htm)
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NSA = Not seasonally adjusted
SA = Seasonally adjusted

	12 Months through January 2008	10 Year High [1]	Date	10 Year Low [1]	Date
Personal Consumption Expenditures					
PCE					
All Items (SA)	3.68%	3.88%	Sep 2005	0.74%	Jan 2002
Core PCE - Less Food and Energy (SA)	2.18%	2.46%	Feb 2007	0.97%	Jan 2002
Durable Goods					
All (SA)	-1.33%	-0.33%	Jan 2005	-4.29%	Oct 2003
Motor Vehicles and Parts (SA)	0.34%	2.39%	Jan 2005	-3.60%	Oct 2003
Furniture and Household Equipment (SA)	-4.16%	-2.80%	Oct 2004	-7.09%	Sep 2003
Other (SA)	0.81%	2.14%	Feb 2007	-2.25%	May 2003
Non-Durable Goods					
All (SA)	6.83%	6.83%	Jan 2008	-0.78%	Dec 2001
Food (SA)	4.65%	4.68%	Dec 2007	1.10%	Jan 2003
Clothing and Shoes (SA)	-0.83%	1.57%	Feb 2007	-3.93%	Jan 2002
Gasoline, Fuel Oil, and Other Energy (SA)	38.82%	52.94%	Sep 2005	-23.69%	Dec 2001
Other (SA)	1.41%	5.53%	Jan 1999	-0.41%	Jun 2003
Services					
All (SA)	3.12%	3.77%	Oct 2005	1.88%	Jun 1998
Housing (SA)	3.13%	4.37%	Jan 2007	2.03%	Jan 2004
Household Operation (SA)	2.14%	9.63%	Jan 2006	-2.36%	Jun 2002
Transportation (SA)	3.28%	5.30%	Sep 2005	0.41%	Jan 2002
Medical care (SA)	3.28%	4.61%	Feb 2004	2.14%	Jun 2002
Recreation (SA)	2.80%	4.16%	Sep 2000	0.77%	Aug 2007
Other (SA)	3.08%	6.53%	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

	Feb 2008	Annualized through February 2008 3 Months	6 Months	1 Year	3 Years	5 Years	10 Years	20 Years	Index Weights as of 12/31/2007
Producer Price Index									
Commodities									
All (NSA)	0.88%	6.86%	11.94%	9.35%	6.36%	5.77%	3.85%	2.81%	100.000
Industrial (NSA)	0.93%	4.69%	11.16%	9.05%	6.28%	5.74%	3.94%	2.88%	85.907
Farm Products (NSA)	-0.73%	35.22%	33.79%	18.11%	11.36%	9.28%	4.33%	2.56%	14.093
Finished Goods									
All (SA)	0.35%	4.01%	9.61%	6.95%	4.45%	4.03%	2.90%	2.49%	100.000
All Less Energy (SA)	0.30%	6.22%	4.97%	3.34%	2.45%	2.47%	1.76%	1.93%	78.252
Finished consumer goods (SA)	0.33%	4.04%	11.66%	8.56%	5.28%	4.76%	3.55%	2.83%	78.317
Capital equipment (SA)	0.53%	4.05%	2.55%	1.81%	1.82%	1.76%	0.97%	1.48%	21.683
Intermediate Goods									
All (SA)	0.78%	7.90%	11.67%	9.32%	6.55%	6.17%	3.81%	2.78%	100.000
Manufacturing (SA)	0.83%	8.43%	7.99%	7.81%	5.55%	5.57%	2.91%	2.20%	41.976
Construction (SA)	0.67%	4.85%	2.18%	2.57%	3.82%	5.15%	2.92%	2.74%	13.391
Processed fuels and lubricants (SA)	0.72%	6.98%	30.99%	22.71%	13.89%	11.23%	8.95%	5.26%	22.234
Containers (SA)	0.65%	5.34%	5.61%	4.21%	3.77%	3.86%	2.72%	2.34%	2.933
Supplies (SA)	0.84%	10.13%	7.42%	4.94%	3.85%	3.60%	2.18%	2.10%	19.466
Crude materials									
All (SA)	3.66%	33.14%	48.84%	24.91%	14.83%	12.90%	9.34%	4.87%	100.000
Foodstuffs and feedstuffs (SA)	0.73%	36.75%	29.96%	18.81%	10.71%	9.17%	4.49%	2.53%	32.604
Nonfood except fuel (SA)	1.66%	15.49%	47.57%	40.92%	22.34%	19.34%	12.24%	6.22%	40.991
Fuel (SA)	10.44%	59.93%	78.49%	11.97%	9.22%	8.75%	12.73%	N/A	26.405

Data Sources: Bureau of Labor Statistics (http://stats.bls.gov/datahome.htm)
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	12 Months through February 2008	10 Year High [1]	Date	10 Year Low [1]	Date
Producer Price Index					
Commodities					
All (NSA)	9.35%	10.80%	Oct 2005	-8.21%	Jan 2002
Industrial (NSA)	9.05%	12.38%	Oct 2005	-9.45%	Jan 2002
Farm Products (NSA)	18.11%	29.96%	May 2007	-11.04%	Apr 2002
Finished Goods					
All (SA)	6.95%	7.91%	Jan 2008	-2.82%	Jan 2002
All Less Energy (SA)	3.34%	3.92%	Oct 2007	-0.94%	Sep 2002
Finished consumer goods (SA)	8.56%	9.84%	Jan 2008	-3.64%	Jan 2002
Capital equipment (SA)	1.81%	2.77%	May 2005	-1.00%	Aug 2002
Intermediate Goods					
All (SA)	9.32%	10.79%	Oct 2005	-4.84%	Jan 2002
Manufacturing (SA)	7.81%	9.83%	Aug 2006	-3.26%	Feb 2002
Construction (SA)	2.57%	10.88%	Jan 2005	-0.73%	Mar 2001
Processed fuels and lubricants (SA)	22.71%	37.59%	Oct 2005	-20.56%	Jan 2002
Containers (SA)	4.21%	8.31%	Mar 2005	-2.75%	Feb 1999
Supplies (SA)	4.94%	4.94%	Feb 2008	-1.40%	Sep 1998
Crude materials					
All (SA)	24.91%	55.06%	Jan 2001	-39.73%	Jan 2002
Foodstuffs and feedstuffs (SA)	18.81%	31.81%	May 2007	-11.75%	Dec 1998
Nonfood except fuel SA)	40.92%	62.67%	Feb 2000	-29.32%	Nov 2001
Fuel (SA)	11.97%	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#cpi)
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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