

Bianco Research L.L.C.

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Volume 8, No. 9

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Inflation Watch

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September 16, 2008

The Bureau of Labor Statistics will release the August 2008 Producer Price and Consumer Price Index report on Friday, September 12th and Tuesday, September 16th, 2008, 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 **5.37%** from August 2007 to August 2008.

Within the eight major sub-groups:

Two groups are growing faster than the base rate. They comprise 32.60% of the index:

- Transportation (11.70%)
- Food and Beverages (5.99%)

Six are growing slower than the base rate. These groups comprise 67.40% of the index:

- Other Goods and Services (4.20%)
- Housing (3.89%)
- Education and Communication (3.60%)
- Medical Care (3.26%)
- Recreation (2.42%)
- Apparel (1.88%)

The commonly watched special index, all items less food and energy (or "core rate"), rose **2.56%** 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 **3.45%** on a year-over-year basis.

Two other special indices are notable on a year-over-year basis. The energy index **rose 27.29%** while the energy commodities index **rose 35.83%**.

Personal Consumption Expenditures

In the year ending **July** 2008, the PCE Index increased 4.53%. The "core" PCE Index (less food and energy) increased by 2.43%.

Producer Price Inflation

In the twelve months ending August 2008, the Producer Price Index for Finished Goods increased 9.69%, the Producer Price Index for Intermediate Goods increased 16.68%, the Producer Price Index for Crude Materials rose 38.16%, and the Producer Price Index for Commodities rose 15.95%.

A New World Order

If we have learned anything over the past year, it is measures and relationships valid in normal times are useless when pushed to extreme values.

So it is and will be with the inflation data for months to come. If inflation is a monetary phenomenon, it must be affected by the creation of credit within the banking system. If assets are being liquidated and new loans are not being extended, then a pool of liquidity may maintain current price pressures while setting the stage for a contraction of the money supply going forward. The experiences of the Great Depression and 1990s Japan confirm the early stages of a deflationary recession often look like liquidity-driven inflation, especially when the response of the authorities is to print money as the lender of last resort.

As the CPI is a Laspeyres index that traces the price movements of a basket of goods, it does not do a good job in accommodating changes in consumer behavior where budgets are stretched. Moreover, it is subject to the vagaries of imputed measures such as OER in a tumultuous housing market and to commodity prices, energy especially, in a world where producers will sell below their marginal costs of production in an attempt to cover fixed costs. Restated, the way we measure inflation will do a poor job of accommodating the new reality and an even worse job of alerting us to deflationary pressures.

Consumer Price Index

	Annualized through August 2008								Index Weights as of 12/31/2007
	Aug 2008	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years	20 Years	
Consumer Price Index									
All Urban Consumers									
All Items (NSA)	-0.40%	4.63%	0.25%	5.37%	3.71%	3.48%	2.98%	3.10%	100.000
All Items (SA)	-0.14%	7.15%	1.36%	5.36%	3.73%	3.48%	2.97%	3.09%	100.000
Food and beverages (SA)	0.57%	9.14%	2.99%	5.99%	4.22%	3.68%	2.99%	3.03%	14.914
Housing (SA)	-0.08%	4.19%	1.09%	3.89%	3.64%	3.31%	3.09%	3.08%	42.427
Owners' Equivalent Rent (SA)	0.14%	2.42%	0.53%	2.52%	3.09%	2.80%	2.98%	3.31%	23.942
Apparel-SA	0.49%	7.36%	3.50%	1.88%	0.21%	-0.07%	-1.15%	0.24%	3.731
Transportation (SA)	-1.46%	16.76%	0.38%	11.70%	5.18%	5.40%	3.84%	3.21%	17.688
Medical care (SA)	0.24%	2.12%	0.60%	3.26%	4.01%	4.12%	4.13%	4.91%	6.231
Recreation (SA)	0.54%	4.38%	1.86%	2.42%	1.35%	1.14%	1.19%	N/A	5.647
Education and communication (SA)	0.22%	4.97%	1.45%	3.60%	3.10%	2.49%	2.21%	N/A	6.086
Other goods and services (SA)	0.22%	4.02%	1.17%	4.20%	3.38%	3.02%	3.86%	4.72%	3.277
Special indexes									
All items less food (SA)	-0.25%	6.77%	1.09%	5.23%	3.63%	3.43%	2.96%	3.11%	86.167
All items less energy (SA)	0.26%	4.36%	1.36%	3.11%	2.78%	2.51%	2.34%	2.86%	90.302
All items less food and energy (SA)	0.19%	3.43%	1.05%	2.56%	2.50%	2.28%	2.22%	2.83%	76.469
Energy (SA)	-3.14%	32.92%	1.38%	27.29%	12.78%	13.57%	9.90%	5.48%	9.698
Energy commodities (SA)	-4.35%	42.59%	-1.23%	35.83%	15.61%	18.52%	13.63%	7.12%	5.834
Median CPI	0.30%	4.49%	1.41%	3.45%	3.25%	2.88%	2.90%	3.16%	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#dpi>)

NSA = Not seasonally adjusted

SA = Seasonally adjusted

	12 Months through August 2008	10 Year High ¹	Date	10 Year Low ¹	Date
Consumer Price Index					
All Urban Consumers					
All Items (NSA)	5.37%	5.60%	Jul 2008	1.07%	Jun 2002
All Items (SA)	5.36%	5.36%	Aug 2008	1.07%	Jun 2002
Food and beverages (SA)	5.99%	5.99%	Aug 2008	1.02%	Jan 2003
Housing (SA)	3.89%	4.80%	Jan 2001	1.87%	Jun 2002
Owners' Equivalent Rent (SA)	2.52%	4.59%	Feb 2002	1.88%	Jan 2004
Apparel-SA	1.88%	2.46%	Feb 2007	-3.99%	Apr 2003
Transportation (SA)	11.70%	14.08%	Sep 2005	-4.83%	Oct 2006
Medical care (SA)	3.26%	5.15%	Dec 2007	3.26%	Aug 2008
Recreation (SA)	2.42%	2.42%	Aug 2008	-0.10%	Aug 2007
Education and communication (SA)	3.60%	3.68%	Jul 2008	0.30%	Jun 1999
Other goods and services (SA)	4.20%	10.42%	Jan 1999	0.98%	Sep 2003
Special indexes					
All items less food (SA)	5.23%	5.26%	Jul 2008	0.85%	Feb 2002
All items less energy (SA)	3.11%	3.11%	Aug 2008	1.39%	Apr 2003
All items less food and energy (SA)	2.56%	2.93%	Sep 2006	1.04%	Dec 2003
Energy (SA)	27.29%	34.25%	Sep 2005	-15.57%	Feb 2002
Energy commodities (SA)	35.83%	52.47%	Sep 2005	-24.49%	Dec 2001
Median CPI	3.45%	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#dpi>)

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 July 2008							
	Jul 2008	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years	20 Years
Personal Consumption Expenditures								
PCE								
All Items (SA)	0.63%	7.53%	2.79%	4.53%	3.33%	3.13%	2.52%	2.58%
Core PCE - Less Food and Energy	0.27%	2.79%	1.06%	2.43%	2.26%	2.20%	1.93%	2.33%
Durable Goods								
All (SA)	0.08%	-0.49%	0.36%	-1.04%	-1.37%	-1.31%	-1.86%	-0.83%
Motor Vehicles and Parts (SA)	0.19%	0.54%	0.35%	-0.01%	0.02%	0.19%	-0.05%	1.02%
Furniture and Household Equipment	-0.24%	-3.75%	-0.91%	-4.44%	-4.52%	-4.20%	-5.02%	-3.79%
Other (SA)	0.49%	3.82%	2.69%	3.36%	1.81%	1.00%	0.07%	0.69%
Nondurable Goods								
All (SA)	1.19%	16.06%	5.98%	8.21%	4.80%	4.35%	3.17%	2.62%
Food (SA)	0.97%	7.56%	3.20%	5.69%	3.94%	3.46%	2.83%	2.72%
Clothing and Shoes (SA)	1.17%	3.94%	2.16%	0.10%	-0.30%	-0.54%	-1.29%	-0.71%
Gasoline, Fuel Oil, and Other Energy	3.89%	108.74%	30.04%	39.08%	19.97%	21.04%	13.62%	7.33%
Other (SA)	-0.05%	0.07%	0.25%	2.02%	1.61%	1.40%	1.94%	2.31%
Services								
All (SA)	0.45%	4.90%	1.64%	3.76%	3.51%	3.40%	3.11%	3.30%
Housing (SA)	0.18%	2.64%	0.98%	2.71%	3.32%	3.02%	3.11%	3.19%
Household Operation (SA)	2.07%	18.70%	6.12%	8.51%	5.91%	4.68%	3.28%	2.56%
Transportation (SA)	0.39%	8.92%	2.41%	5.56%	3.73%	3.47%	2.84%	3.04%
Medical care (SA)	0.30%	3.03%	0.99%	2.58%	3.03%	3.29%	3.16%	3.92%
Recreation (SA)	0.53%	4.94%	1.69%	3.63%	2.78%	2.68%	2.94%	3.16%
Other (SA)	0.27%	3.44%	1.17%	4.09%	3.52%	3.64%	3.13%	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#cp1>)

NSA = Not seasonally adjusted

SA = Seasonally adjusted

	12 Months through July 2008	10 Year High ¹	Date	10 Year Low ¹	Date
Personal Consumption Expenditures					
PCE					
All Items (SA)	4.53%	4.53%	Jul 2008	0.75%	Jan 2002
Core PCE - Less Food and Energy (SA)	2.43%	2.45%	Aug 2006	1.27%	Jan 2002
Durable Goods					
All (SA)	-1.04%	-0.33%	Jan 2005	-4.29%	Oct 2003
Motor Vehicles and Parts (SA)	-0.01%	2.39%	Jan 2005	-3.60%	Oct 2003
Furniture and Household Equipment (SA)	-4.44%	-2.80%	Oct 2004	-7.09%	Sep 2003
Other (SA)	3.36%	3.36%	Jul 2008	-2.25%	May 2003
Non-Durable Goods					
All (SA)	8.21%	8.21%	Jul 2008	-0.78%	Dec 2001
Food (SA)	5.69%	5.69%	Jul 2008	1.10%	Jan 2003
Clothing and Shoes (SA)	0.10%	1.37%	Feb 2007	-3.93%	Jan 2002
Gasoline, Fuel Oil, and Other Energy (SA)	39.08%	52.94%	Sep 2005	-23.69%	Dec 2001
Other (SA)	2.02%	5.53%	Jan 1999	-0.41%	Jun 2003
Services					
All (SA)	3.76%	3.77%	Oct 2005	1.97%	Sep 1998
Housing (SA)	2.71%	4.36%	Jan 2007	2.03%	Jan 2004
Household Operation (SA)	8.51%	9.63%	Jan 2006	-2.36%	Jun 2002
Transportation (SA)	5.56%	5.70%	Jun 2008	0.41%	Jan 2002
Medical care (SA)	5.56%	4.61%	Feb 2004	2.14%	Jun 2002
Recreation (SA)	2.58%	4.16%	Sep 2000	0.80%	Aug 2007
Other (SA)	3.63%	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 Recreation Index started January 1994

Producer Price Index

	Annualized through August 2008								Index Weights as of 12/31/2007
	Aug 2008	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years	20 Years	
Producer Price Index									
Commodities									
All (NSA)	-2.77%	7.10%	-0.80%	15.95%	8.25%	7.69%	4.87%	3.13%	100.000
Industrial (NSA)	-2.91%	7.40%	-0.68%	16.35%	8.17%	7.91%	5.04%	3.27%	85.907
Farm Products (NSA)	-5.84%	-10.87%	-13.63%	17.17%	12.84%	8.58%	4.80%	2.07%	14.093
Finished Goods									
All (SA)	-0.92%	8.55%	0.55%	9.69%	5.29%	4.88%	3.40%	2.61%	100.000
All Less Energy (SA)	0.23%	5.81%	1.65%	5.16%	3.23%	2.81%	1.96%	1.94%	78.252
Finished consumer goods (SA)	-1.18%	9.67%	0.10%	11.63%	6.25%	5.79%	4.13%	2.99%	78.317
Capital equipment (SA)	0.13%	4.80%	1.84%	3.14%	2.14%	2.02%	1.19%	1.49%	21.683
Intermediate Goods									
All (SA)	-0.99%	16.33%	3.39%	16.68%	9.14%	8.32%	4.98%	3.09%	100.000
Manufacturing (SA)	2.20%	29.42%	10.16%	16.65%	9.69%	7.99%	4.23%	2.58%	41.976
Construction (SA)	1.53%	20.73%	6.70%	10.13%	6.69%	6.76%	3.76%	3.05%	13.391
Processed fuels and lubricants (SA)	-9.37%	-6.44%	-11.74%	27.92%	13.43%	14.34%	10.69%	5.64%	22.234
Containers (SA)	1.36%	14.09%	6.25%	7.59%	5.22%	4.81%	3.28%	2.38%	2.933
Supplies (SA)	0.90%	16.18%	5.94%	10.74%	5.63%	4.91%	2.91%	2.24%	19.466
Crude materials									
All (SA)	-11.91%	-18.13%	-15.78%	38.16%	15.32%	16.31%	11.53%	5.42%	100.000
Foodstuffs and feedstuffs (SA)	-5.20%	-7.06%	-9.92%	15.17%	12.14%	8.67%	5.12%	2.11%	32.604
Nonfood except fuel (SA)	-10.59%	-14.38%	-11.54%	48.24%	24.01%	25.11%	16.21%	7.42%	40.991
Fuel (SA)	-21.37%	-35.31%	-28.87%	58.11%	8.13%	14.34%	14.80%	N/A	26.405

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

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SA = Seasonally adjusted

	12 Months through August 2008	10 Year High ¹	Date	10 Year Low ¹	Date
Producer Price Index					
Commodities					
All (NSA)	15.95%	17.42%	Jul 2008	-8.21%	Jan 2002
Industrial (NSA)	16.35%	17.82%	Jul 2008	-9.45%	Jan 2002
Farm Products (NSA)	17.17%	29.96%	May 2007	-11.04%	Apr 2002
Finished Goods					
All (SA)	9.69%	9.69%	Aug 2008	-2.82%	Jan 2002
All Less Energy (SA)	5.16%	5.16%	Aug 2008	-0.94%	Sep 2002
Finished consumer goods (SA)	11.63%	11.63%	Aug 2008	-3.64%	Jan 2002
Capital equipment (SA)	3.14%	3.14%	Aug 2008	-1.00%	Aug 2002
Intermediate Goods					
All (SA)	16.68%	16.68%	Aug 2008	-4.84%	Jan 2002
Manufacturing (SA)	16.65%	16.65%	Aug 2008	-3.26%	Feb 2002
Construction (SA)	10.13%	10.88%	Jan 2005	-0.73%	Mar 2001
Processed fuels and lubricants (SA)	27.92%	37.59%	Oct 2005	-20.56%	Jan 2002
Containers (SA)	7.59%	8.31%	Mar 2005	-2.75%	Feb 1999
Supplies (SA)	10.74%	10.74%	Aug 2008	-1.40%	Sep 1998
Crude materials					
All (SA)	38.16%	55.06%	Jan 2001	-39.73%	Jan 2002
Foodstuffs and feedstuffs (SA)	15.17%	31.81%	May 2007	-11.75%	Dec 1998
Nonfood except fuel SA	48.24%	67.22%	Jun 2008	-29.32%	Nov 2001
Fuel (SA)	58.11%	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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