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Inflation Watch

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The Bureau of Labor Statistics released the March Consumer Price Index on Friday, April 15th and released the March Producer Price Index on Thursday, April 14th 2011.

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 Inflation Watch section of our web site (<http://www.biancoresearch.com>).

Consumer Price Inflation

The Consumer Price Index rose **2.68%** from March 2010 to March 2011.

Within the eight major sub-groups:

Three groups are growing faster than the base rate. They comprise 37.46% of the index:

- Transportation (9.73%)
- Medical Care (2.68%)
- Food and Beverages (2.78%)

Five are growing slower than the base rate. They comprise 62.54% of the index:

- Housing (0.73%)
- Education and Communication (1.12%)
- Apparel (-0.46 %)
- Recreation (-0.06%)
- Other Goods and Services (1.81%)

The commonly watched special index, all items less food and energy (or "core rate"), rose **1.21%** in the March to March 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 **1.21%** on a year-over-year basis.

Two other special indices are notable on a year-over-year basis. The energy index **rose 14.72%** while the energy commodities index **rose 26.77%**.

Personal Consumption Expenditures

In the year ending **February** 2011, the PCE Index increased 1.57%. The "core" PCE Index (less food and energy) increased by 0.88%.

Producer Price Inflation

In the twelve months ending March 2011, the Producer Price Index for Finished Goods rose 5.74%, the Producer Price Index for Intermediate Goods rose 6.72%, and the Producer Price Index for Crude Materials rose 17.58%.

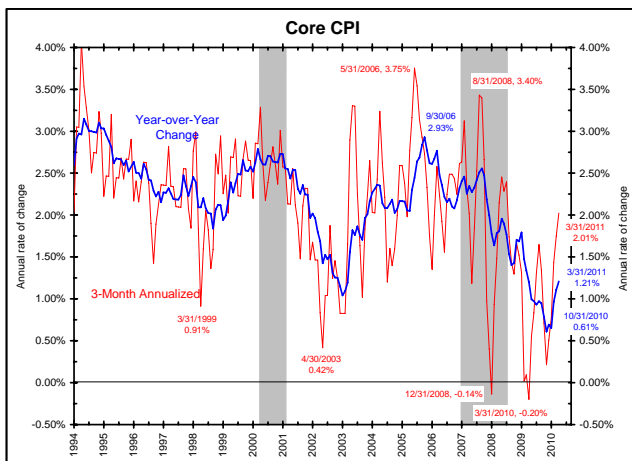
Have The “Second Order” Inflation Effects Arrived?

Long-time readers know that we see inflation as both a *concept*, which was best described last week in [Inflation Is A State Of Mind](#) and a *measurement*.

Regarding the measurement of inflation, we differ with the crowd that believes wages are the critical component. Instead, we argue that housing measures are more important. Wages are partially *conceptual* whereas housing is the most important statistic in the *measurement* of inflation.

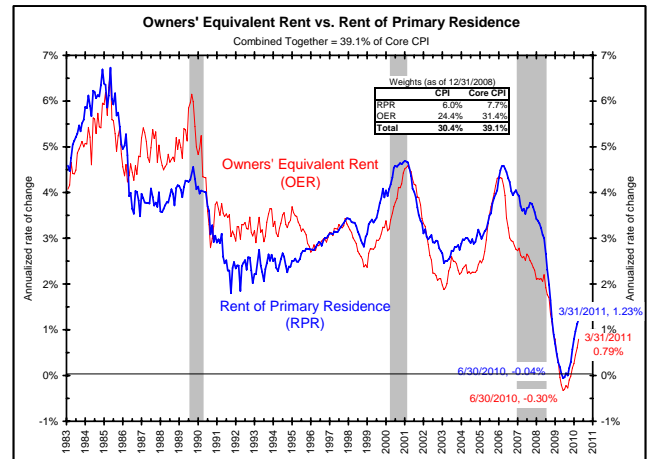
We also hold a different viewpoint on inflation from the Federal Reserve. We believe headline inflation is the better measure, while they prefer core inflation. We discussed our opinion on the matter in [last Month's Inflation Watch](#). Here we focus in the measure of core inflation.

As the next chart shows, year-over-year (YoY) core inflation (blue line) has rebounded from 0.6% last October to 1.2% as of March 31, 2011. The three-month annualized rate of inflation (red line) has been running just over 2%, the upper-end of what is believed to be the Federal Reserve's preferred range (1% to 2%).

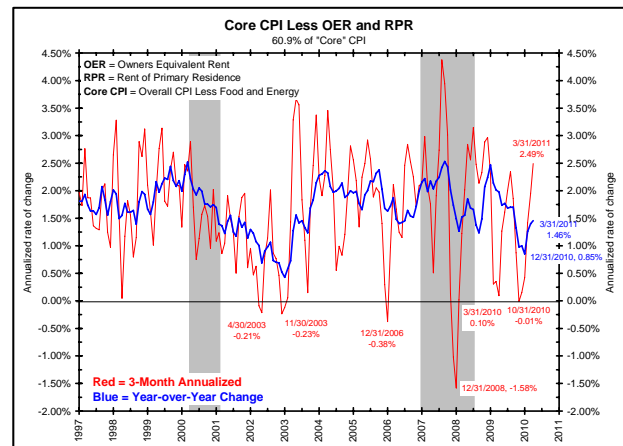


As the next chart shows, Owners' Equivalent Rent (OER) and Rents of Primary Residence (RPR) have been on the rise. Combined, these measures account for approximately 40% of core inflation. OER is the main measure of housing inflation whereas RPR is the main measure of renters' inflation. Both are derived from the same survey of rents conducted by the Bureau of Labor Statistics.

Although [the first time homeowner's tax credit may have artificially depressed housing inflation](#), it is now rebounding smartly. Over the last three months OER has risen by an annualized 1.25%, well above its 0.79% YoY rise. [As predicted](#), renters' inflation is also bouncing back strongly, up an annualized 1.86% over the last three months versus a rise of 1.23% YoY.



What about the other 60% of core inflation? The next chart shows core CPI less OER and RPR on both a YoY and three-month annualized basis. Non-housing parts of core inflation are rebounding as well, up 1.46% YoY and 2.49% on a three-month annualized basis.



Conclusion - Has Inflation Arrived?

The Federal Reserve dismisses the rise in commodity prices as being unrelated to monetary policy. [We somewhat disagree](#), but will leave this discussion for another time. More to the point, the Federal Reserve states they are looking for “second order effects” of higher commodity prices being passed through as a general rise in all prices.

The measures above are consistent with the idea that these second order effects might be materializing. Three-month annualized non-housing core inflation (60% of core inflation), at 2.49%, is well above the Federal Reserve's preferred target of 1.0% to 2.0%. Housing inflation (40% of core inflation) is [finally rebounding strongly](#) now that the first time homeowner's tax credit has expired.

With a few more months of similar numbers we could have a real inflation “issue.”

Consumer Price Index

	Annualized through March 2011								Index Weights as of 12/31/2008
	Mar 2011	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years	20 Years	
Consumer Price Index									
All Urban Consumers									
All Items (NSA)	0.98%	8.06%	4.66%	2.68%	1.53%	2.26%	2.40%	2.55%	100.000
All Items (SA)	0.55%	6.14%	4.69%	2.70%	1.57%	2.27%	2.41%	2.56%	100.000
Food and beverages (SA)	0.70%	7.09%	4.28%	2.78%	2.45%	3.00%	2.73%	2.56%	15.757
Housing (SA)	0.13%	1.86%	1.57%	0.73%	0.56%	1.59%	2.21%	2.51%	43.421
Owners' Equivalent Rent (SA)	0.07%	1.25%	1.20%	0.79%	0.95%	1.91%	2.40%	2.79%	24.433
Rent of Primary Residence (NSA)	0.13%	1.86%	2.24%	1.23%	1.54%	2.55%	2.89%	2.91%	5.957
Apparel-SA	-0.51%	-1.46%	-1.13%	-0.46%	0.27%	-0.06%	-0.91%	-0.33%	3.691
Transportation (SA)	2.20%	23.86%	19.47%	9.73%	2.69%	3.50%	3.23%	2.77%	15.314
Medical care (SA)	0.19%	2.90%	2.59%	2.68%	3.10%	3.56%	3.94%	4.23%	6.390
Recreation (SA)	-0.01%	1.80%	0.36%	-0.06%	0.17%	0.49%	0.83%	N/A	5.741
Education and communication (SA)	0.18%	2.05%	1.19%	1.12%	2.38%	2.48%	2.29%	N/A	6.301
Other goods and services (SA)	-0.08%	0.56%	0.66%	1.81%	4.11%	3.81%	3.33%	4.24%	3.386
Special indexes									
All items less food (SA)	0.52%	5.08%	4.77%	2.62%	1.42%	2.14%	2.35%	2.56%	85.371
All items less energy (SA)	0.23%	2.84%	1.87%	1.45%	1.57%	2.00%	2.04%	2.38%	92.373
All items less food and energy (SA)	0.14%	2.03%	1.40%	1.21%	1.41%	1.81%	1.91%	2.34%	77.746
Energy (SA)	3.50%	42.37%	36.82%	14.72%	1.70%	4.90%	6.47%	4.50%	7.624
Energy commodities (SA)	5.55%	74.81%	66.68%	26.77%	2.84%	7.84%	9.38%	5.95%	3.465
Median CPI	0.10%	2.02%	1.61%	1.21%	1.51%	2.22%	2.45%	2.72%	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 March 2011	10 Year High ¹	Date	10 Year Low ¹	Date
Consumer Price Index					
All Urban Consumers					
All Items (NSA)	2.68%	5.60%	Jul 2008	-2.10%	Jul 2009
All Items (SA)	2.70%	5.36%	Aug 2008	-2.15%	Jul 2009
Food and beverages (SA)	2.78%	6.13%	Oct 2008	-0.47%	Nov 2009
Housing (SA)	0.73%	4.63%	May 2001	-0.76%	Jul 2009
Owners' Equivalent Rent (SA)	0.79%	4.59%	Feb 2002	-0.33%	May 2010
Rent of Primary Residence (NSA)	1.23%	4.69%	Dec 2001	-0.06%	May 2010
Apparel-SA	-0.46%	2.46%	Feb 2007	-3.99%	Apr 2003
Transportation (SA)	9.73%	14.22%	Jan 2010	-14.42%	Jul 2009
Medical care (SA)	2.68%	5.15%	Dec 2007	2.52%	Jan 2009
Recreation (SA)	-0.06%	2.42%	Aug 2008	-1.36%	Sep 2010
Education and communication (SA)	1.12%	3.68%	Jul 2008	1.01%	Aug 2003
Other goods and services (SA)	1.81%	8.05%	Dec 2009	0.98%	Sep 2003
Special indexes					
All items less food (SA)	2.62%	5.26%	Jul 2008	-2.62%	Jul 2009
All items less energy (SA)	1.45%	3.11%	Aug 2008	0.74%	Oct 2010
All items less food and energy (SA)	1.21%	2.93%	Sep 2006	0.61%	Oct 2010
Energy (SA)	14.72%	34.25%	Sep 2005	-29.45%	Jul 2009
Energy commodities (SA)	26.77%	52.47%	Sep 2005	-40.79%	Dec 2008
Median CPI	1.21%	4.01%	Nov 2001	0.30%	May 2010

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 February 2011							
	Feb 2011	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years	20 Years
Personal Consumption Expenditures								
PCE								
All Items (SA)	0.40%	3.97%	2.65%	1.57%	1.42%	2.04%	1.04%	1.56%
Core PCE - Less Food and Energy	0.16%	1.35%	0.90%	0.88%	1.42%	1.82%	0.91%	1.50%
Durable Goods								
All (SA)	0.22%	-0.24%	-1.27%	-1.43%	-1.53%	-1.56%	-0.78%	-0.72%
Motor Vehicles and Parts (SA)	0.52%	2.13%	0.77%	1.65%	1.50%	0.70%	0.33%	1.04%
Furniture and Household Equipment	-0.07%	1.75%	-1.90%	-3.22%	-2.09%	-1.56%	-0.49%	-2.18%
Other (SA)	0.17%	3.68%	2.27%	2.74%	3.85%	3.97%	1.99%	1.06%
Nondurable Goods								
All (SA)	1.01%	13.31%	8.79%	3.88%	1.84%	2.82%	1.47%	1.54%
Food (SA)	0.78%	6.21%	3.88%	2.39%	2.17%	2.80%	1.32%	1.67%
Clothing and Shoes (SA)	-0.98%	0.26%	-2.02%	-0.93%	-0.24%	-0.18%	-0.24%	-0.58%
Gasoline, Fuel Oil, and Other Energy	4.75%	79.29%	54.12%	18.61%	1.55%	6.78%	4.12%	3.26%
Other (SA)	0.31%	2.65%	1.50%	1.10%	2.70%	2.33%	1.15%	1.68%
Services								
All (SA)	0.21%	1.61%	1.25%	1.27%	1.75%	2.40%	1.20%	2.06%
Housing (SA)	0.29%	2.08%	1.14%	0.75%	1.20%	2.11%	1.12%	2.04%
Household Operation (SA)	0.24%	1.64%	1.17%	1.19%	1.83%	2.49%	0.98%	1.37%
Transportation (SA)	0.54%	5.37%	3.41%	1.99%	3.07%	2.97%	1.69%	2.24%
Medical care (SA)	0.21%	0.59%	0.93%	1.63%	2.31%	2.74%	1.28%	2.41%
Recreation (SA)	0.21%	-6.37%	-5.66%	-5.26%	-5.53%	-5.64%	-3.41%	-0.28%
Other (SA)	0.17%	1.87%	1.76%	2.03%	2.63%	2.88%	1.59%	2.18%

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 February 2011	10 Year High ¹	Date	10 Year Low ¹	Date
Personal Consumption Expenditures					
PCE					
All Items (SA)	1.57%	4.51%	Jul 2008	-0.79%	Jul 2009
Core PCE - Less Food and Energy (SA)	0.88%	2.63%	Jul 2008	0.73%	Jul 2009
Durable Goods					
All (SA)	-1.43%	-0.56%	Dec 2004	-4.19%	Oct 2003
Motor Vehicles and Parts (SA)	1.65%	6.03%	Feb 2010	-4.04%	Oct 2003
Furniture and Household Equipment (SA)	-3.22%	1.22%	Apr 2009	-5.16%	Jun 2010
Other (SA)	2.74%	7.06%	Apr 2008	-3.08%	Jan 2003
Non-Durable Goods					
All (SA)	3.88%	9.24%	Jul 2008	-5.14%	Jul 2009
Food (SA)	2.39%	7.03%	Oct 2008	-1.64%	Nov 2009
Clothing and Shoes (SA)	-0.93%	2.05%	Dec 2009	-4.08%	Jan 2002
Gasoline, Fuel Oil, and Other Energy (SA)	18.61%	54.14%	Sep 2005	-39.52%	Dec 2008
Other (SA)	1.10%	5.07%	Jul 2009	-0.26%	Jun 2003
Services					
All (SA)	1.27%	3.88%	Jul 2008	0.96%	Sep 2009
Housing (SA)	0.75%	5.16%	May 2001	0.00%	Feb 2010
Household Operation (SA)	1.19%	3.99%	Jul 2008	1.11%	Jan 2011
Transportation (SA)	1.99%	6.85%	Sep 2008	-1.03%	Oct 2001
Medical care (SA)	1.99%	4.25%	Feb 2004	1.63%	Feb 2011
Recreation (SA)	1.63%	-3.60%	Nov 2008	-7.59%	Sep 2001
Other (SA)	-5.26%	4.83%	Jul 2008	1.65%	Jul 2009

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

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¹ Education and communication Index started January 1994

¹ Recreation Index started January 1994

Producer Price Index

	Annualized through March 2011								Index Weights as of 12/31/2007
	Mar 2011	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years	20 Years	
Producer Price Index									
Commodities									
All (NSA)	1.84%	20.83%	15.95%	8.62%	1.91%	4.18%	3.89%	2.73%	100.000
Industrial (NSA)	2.04%	19.21%	14.50%	7.75%	1.65%	3.77%	3.81%	2.78%	85.907
Farm Products (NSA)	-2.12%	50.60%	44.12%	23.09%	2.94%	10.76%	5.60%	2.65%	14.093
Finished Goods									
All (SA)	0.69%	12.97%	10.94%	5.74%	2.66%	3.57%	3.00%	2.26%	100.000
All Less Energy (SA)	0.11%	6.95%	4.35%	2.56%	2.43%	2.78%	2.04%	1.70%	78.252
Finished consumer goods (SA)	0.85%	16.53%	14.67%	7.03%	3.08%	4.22%	3.60%	2.64%	78.317
Capital equipment (SA)	0.25%	2.82%	0.76%	1.02%	1.49%	1.67%	1.30%	1.16%	21.683
Intermediate Goods									
All (SA)	-0.46%	11.02%	12.15%	6.72%	1.54%	3.68%	3.99%	2.66%	100.000
Manufacturing (SA)	0.50%	4.31%	2.13%	1.57%	-2.09%	1.19%	2.31%	1.56%	41.976
Construction (SA)	0.76%	6.51%	4.82%	2.93%	2.27%	2.59%	3.45%	2.69%	13.391
Processed fuels and lubricants (SA)	2.65%	37.80%	39.59%	17.36%	0.60%	5.51%	7.06%	4.69%	22.234
Containers (SA)	0.34%	-2.50%	-1.36%	3.13%	3.25%	3.40%	2.94%	2.34%	2.933
Supplies (SA)	0.72%	8.56%	7.67%	5.08%	2.42%	3.14%	2.75%	2.05%	19.466
Crude materials									
All (SA)	-0.52%	27.33%	44.14%	17.58%	-1.36%	7.04%	6.60%	4.68%	100.000
Foodstuffs and feedstuffs (SA)	0.32%	55.40%	35.67%	25.27%	3.23%	10.10%	5.41%	2.75%	32.604
Nonfood except fuel (SA)	-26.79%	-67.29%	-12.41%	-8.58%	-7.48%	5.44%	9.27%	5.26%	40.991
Fuel (SA)	-8.24%	-9.72%	8.18%	-14.56%	-17.77%	-6.53%	-0.51%	3.65%	26.405

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

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SA = Seasonally adjusted

	12 Months through March 2011	10 Year High ¹	Date	10 Year Low ¹	Date
Producer Price Index					
Commodities					
All (NSA)	8.62%	17.42%	Jul 2008	-16.10%	Jul 2009
Industrial (NSA)	7.75%	17.82%	Jul 2008	-16.60%	Jul 2009
Farm Products (NSA)	23.09%	32.82%	Feb 2011	-24.50%	Jul 2009
Finished Goods					
All (SA)	5.74%	9.79%	Jul 2008	-6.63%	Jul 2009
All Less Energy (SA)	2.56%	5.22%	Aug 2008	-0.94%	Sep 2002
Finished consumer goods (SA)	7.03%	11.75%	Aug 2008	-9.02%	Jul 2009
Capital equipment (SA)	1.02%	4.17%	Jan 2009	-1.00%	Aug 2002
Intermediate Goods					
All (SA)	6.72%	16.81%	Jul 2008	-15.14%	Jul 2009
Manufacturing (SA)	1.57%	15.54%	Aug 2008	-15.41%	Aug 2009
Construction (SA)	2.93%	13.82%	Sep 2008	-8.09%	Sep 2009
Processed fuels and lubricants (SA)	17.36%	37.59%	Oct 2005	-35.44%	Jul 2009
Containers (SA)	3.13%	9.33%	Sep 2008	-3.27%	Nov 2009
Supplies (SA)	5.08%	10.37%	Aug 2008	-4.14%	Aug 2009
Crude materials					
All (SA)	17.58%	48.61%	Jul 2008	-45.02%	Jul 2009
Foodstuffs and feedstuffs (SA)	25.27%	31.79%	May 2007	-25.68%	Jul 2009
Nonfood except fuel (SA)	-8.58%	68.93%	Jan 2010	-47.84%	Apr 2009
Fuel (SA)	-14.56%	177.30%	Mar 2003	-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#cp>)

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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