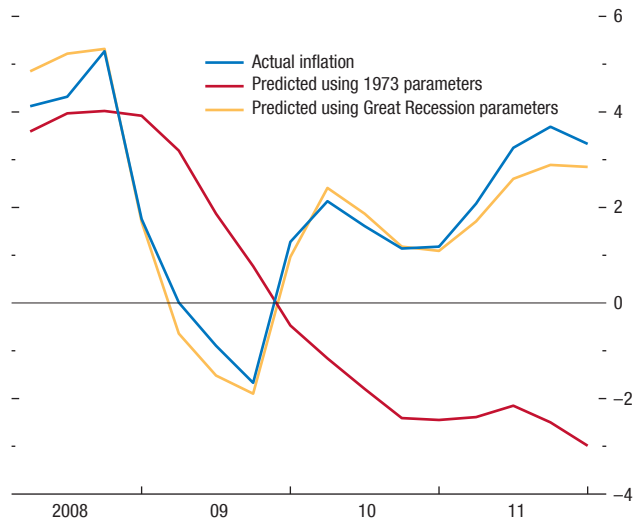


Figure 3.8. Actual and Predicted Inflation in the United States

(Percent, year over year)

If inflation in the U.S. economy behaved as it did during the 1970s, the United States would have experienced significant deflation starting in 2010. The fact that it did not is evidence that the behavior of inflation and its reaction to economic slack have changed. Inflation is now much more stable than in the past. (The large fall in inflation in 2009 reflects the commodity price swing that affected headline inflation in most economies at that time. The contribution from economic slack was relatively minor.)



Sources: Board of Governors of the Federal Reserve System; Organization for Economic Cooperation and Development; and IMF staff calculations.