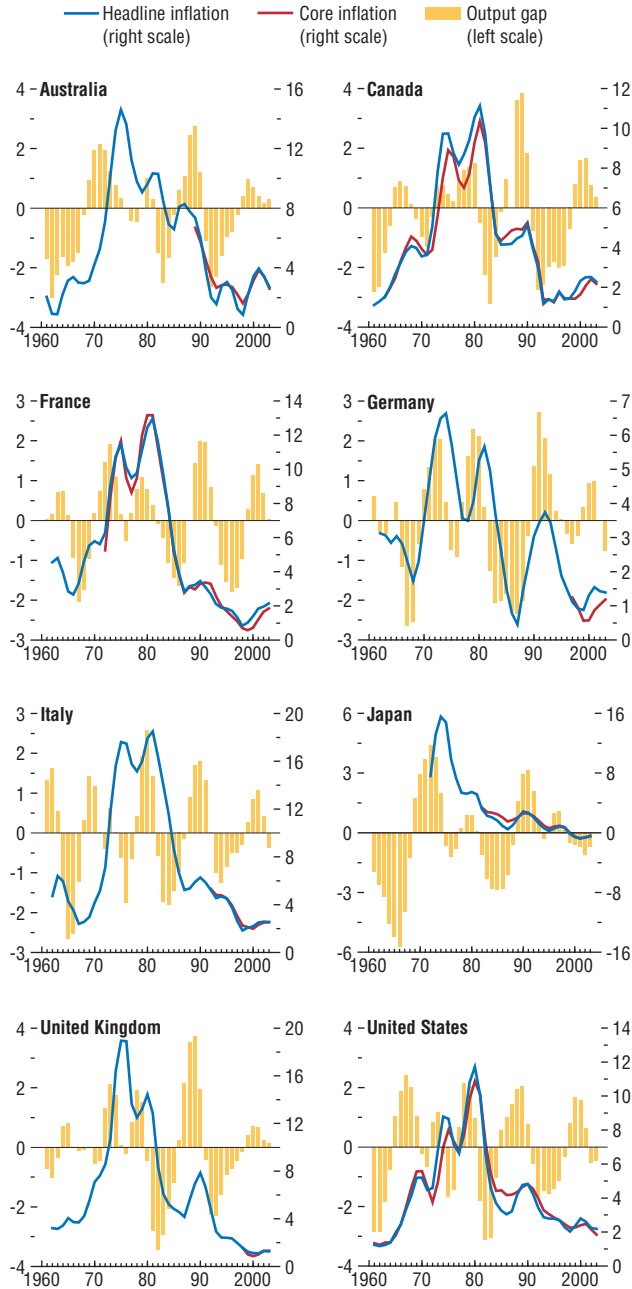


Figure 3.5. Inflation over the Business Cycle, 1961–2003¹

(Annual percent change for inflation; percentage points for output gap)

In many countries, the sensitivity of headline and core inflation to the business cycle seems to have diminished.



Sources: Eurostat; Haver Analytics; national authorities; and IMF staff calculations.
¹Output gap is defined as the percent deviation of real GDP from its long-term trend.
 Core inflation refers to headline CPI excluding food and energy. All variables are expressed as three-year centered moving averages. See Appendix 3.1 for details.