

- o Consumer price increases in the last year and a half have been below the underlying rate because of real appreciation and declining real commodity prices. Even if these relative prices level off, the inflation rate will rise, because of the removal of this bonus.
- o All the econometric evidence suggests that changes in inflation depend on the rate of change much more than the absolute level of slack (however measured). We have benefitted from the economy's precipitous decline; we should expect a bulge as the economy recovers.
- o A harrowing reminder -- CIP inflation surrounding the last recession followed the pattern.:

1974	12.2%
1975	7.0%
1976	4.8%
1977	6.8%
1978	9.0%

cc: WN, EH, AW