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INTERNATIONAL BUSINESS

In Eurozone, Deflation; in U.S., Mild Inflation

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Off the Charts

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DEFLATION has become a reality in many European countries, at least in terms of the prices of goods, as opposed to services.

In the United States, prices for goods are still rising, but at a slow rate. The Bureau of Labor Statistics reported this week that prices of goods were 0.4 percent higher in September than they were a year earlier, but that increase was largely due to a surprising increase in food prices — something that seems unlikely to continue in the face of declines in prices for many agricultural commodities.

Over all, the Consumer Price Index in the United States rose 1.7 percent over the last 12 months. That is hardly a high number, and is below the 2 percent target rate used by the Federal Reserve. But as the accompanying charts show, the rate is higher than that of any of the 15 largest countries in the European Union.

Of those 15 European countries, prices of goods in 11 were lower in September than a year earlier. Only Germany, Britain, Austria and Finland experienced goods price inflation, and none of those rates were higher than half a percentage point.

The reasons for declining prices include weak economies — some European economies appear to have fallen into new recessions — and declining import prices brought on in part by weak demand. Over all, the United States reported that import prices for goods were nearly 1 percent lower in September than they had been a year earlier. Imports from China, the largest exporter into the American market, were just a tenth of 1 percent higher.

Deflation is less likely in prices for services, in part because it is difficult to reduce nominal wages and in part because overseas competition may be less of a

factor. Those prices rose at a rate of 2.5 percent over the last year in the United States and they have shown smaller gains in most European countries, although there were declines in Spain and Greece. Inflation in service prices has offset deflation in the prices of goods, keeping overall inflation above zero in most of the European countries.

The charts also show rates of growth in gross domestic product since the third quarter of 2010, just before the United States Federal Reserve embarked on its program of asset purchases that became known as QE2, for quantitative easing.

In November 2010, a large group of conservative economists and investors, including Michael J. Boskin, who was chairman of the president's Council of Economic Advisers under George H. W. Bush, warned in a letter to the Fed that "the planned asset purchases risk currency debasement and inflation, and we do not think they will achieve the Fed's objective of promoting employment."

Since then, inflation has been greater in the United States, and economic growth higher, than in much of Europe, but there has been no currency debasement — the strong dollar has helped to hold down import prices — and the unemployment rate has fallen by more than 3 percentage points.

Over all, the only one of the 15 European countries where G.D.P. grew more than in the United States was Poland. In the eurozone, the European Central Bank resolutely refused to follow the Fed's lead until after Jean-Claude Trichet retired as president in 2011, and growth has been weak. It appears that the Fed's quantitative easing did stimulate growth to at least some extent but did not increase inflation.

Of the 15 European countries, shown in the charts, only four — Britain, Denmark and Sweden, as well as Poland — remained out of the eurozone and thus in control of their own monetary policy. Three of those countries — Denmark being the exception — have grown more rapidly than any of the major countries in the eurozone. Five of the eurozone countries — Finland, Greece, Italy, Portugal and Spain — now have smaller economies than they did in 2010.

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