

“*That* was deflation”

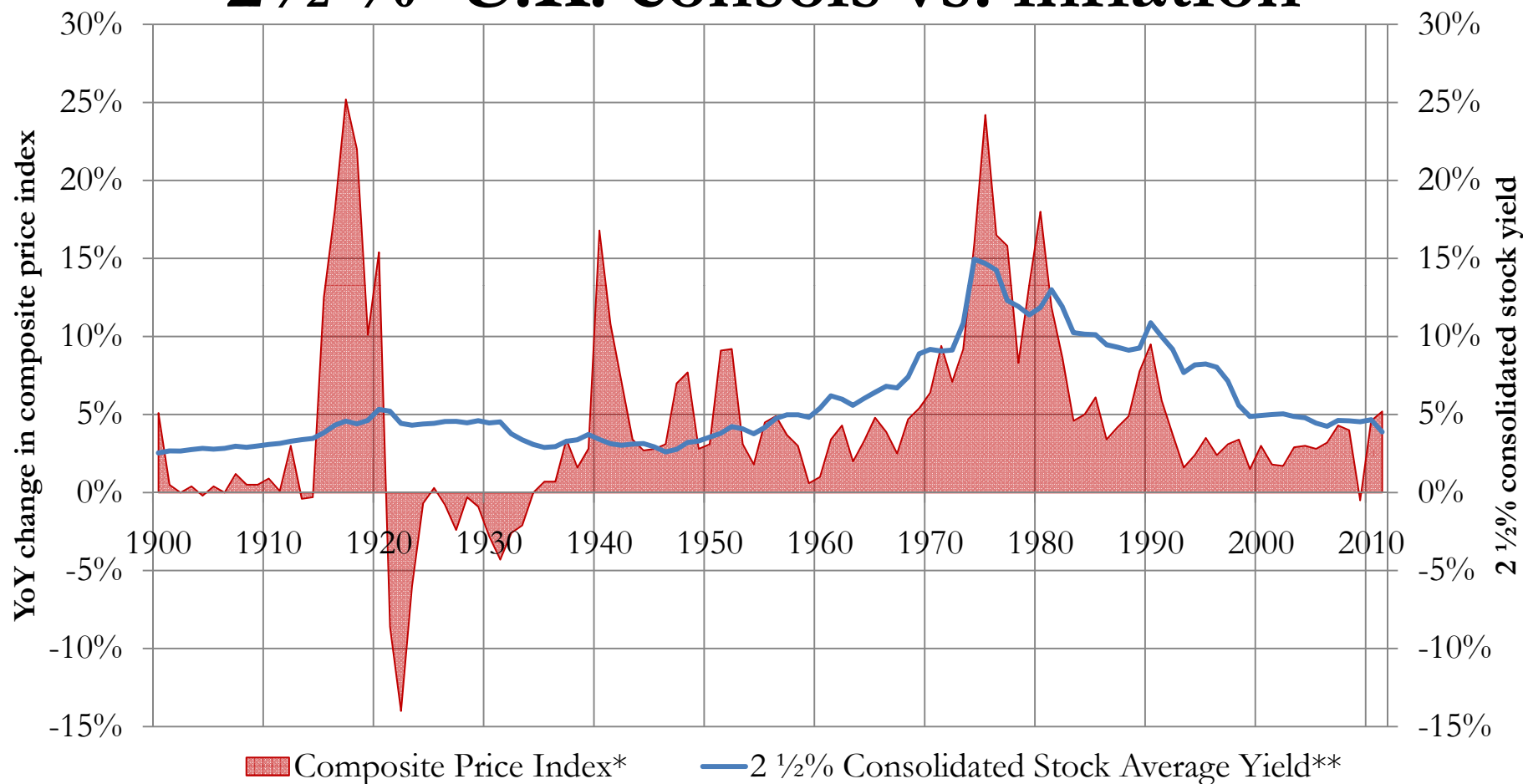
a presentation by James Grant

at the Fall 2011 Grant’s

Conference

Faith of the creditors

2½ % U.K. consols vs. inflation

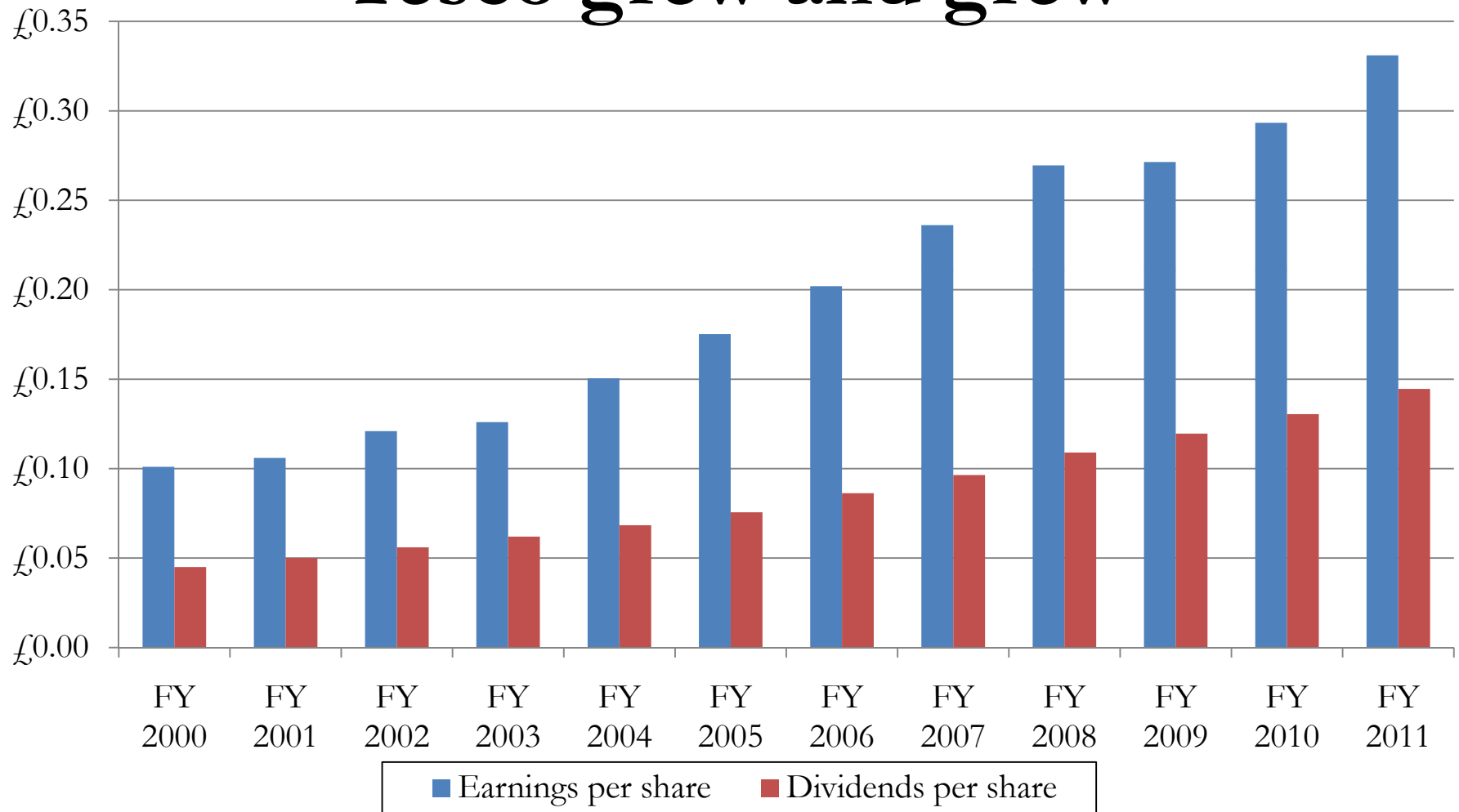


* 2011 = Sept. 2011 CPI data

** 2011 = the Oct. 2011 yield of the 2½ of Oct. 1949

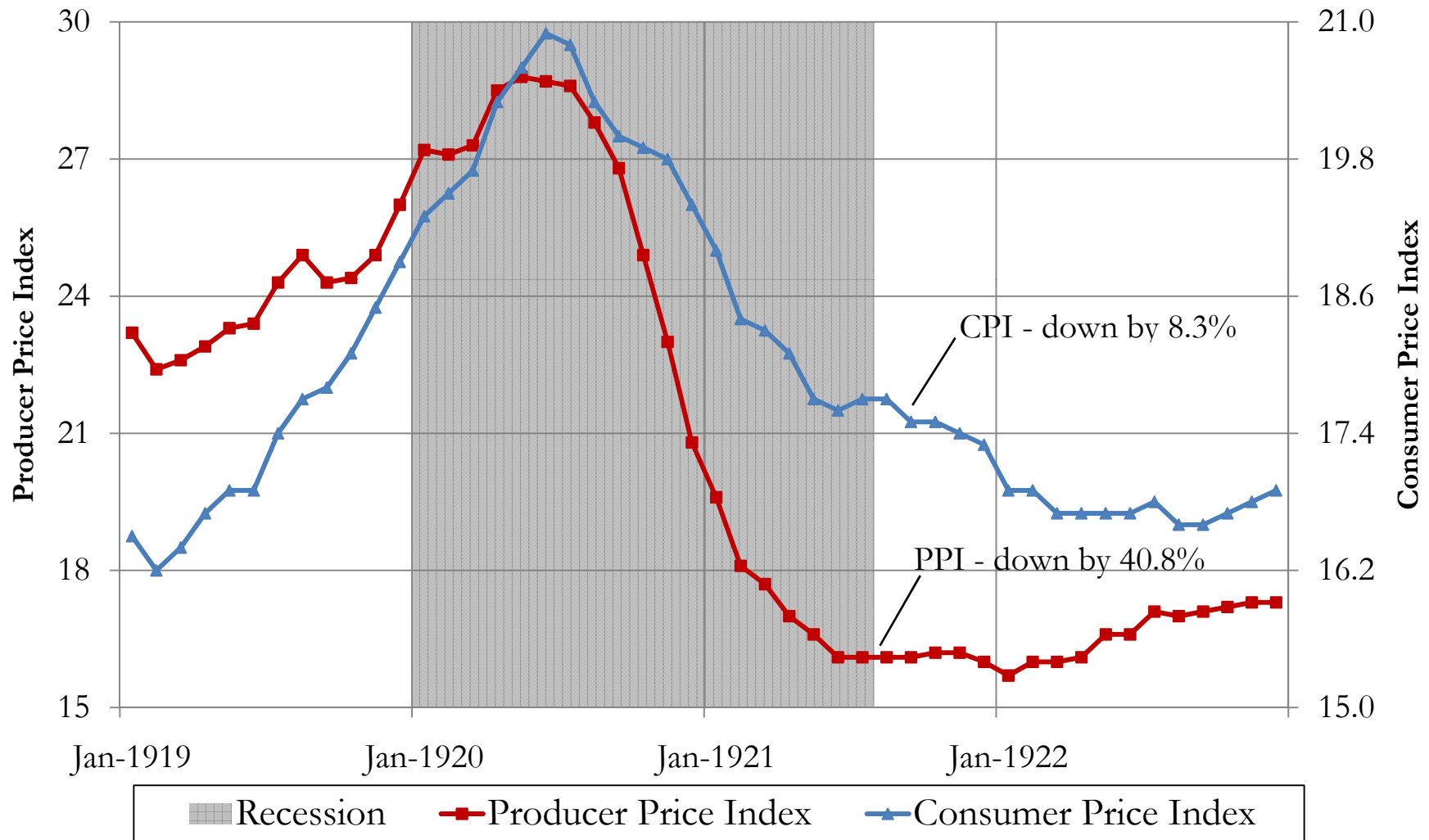
Source: Debt Management Office, the Bloomberg, Office for National Statistics

In a not-booming decade, Tesco grew and grew



Source: the Bloomberg

Now *that* was deflation



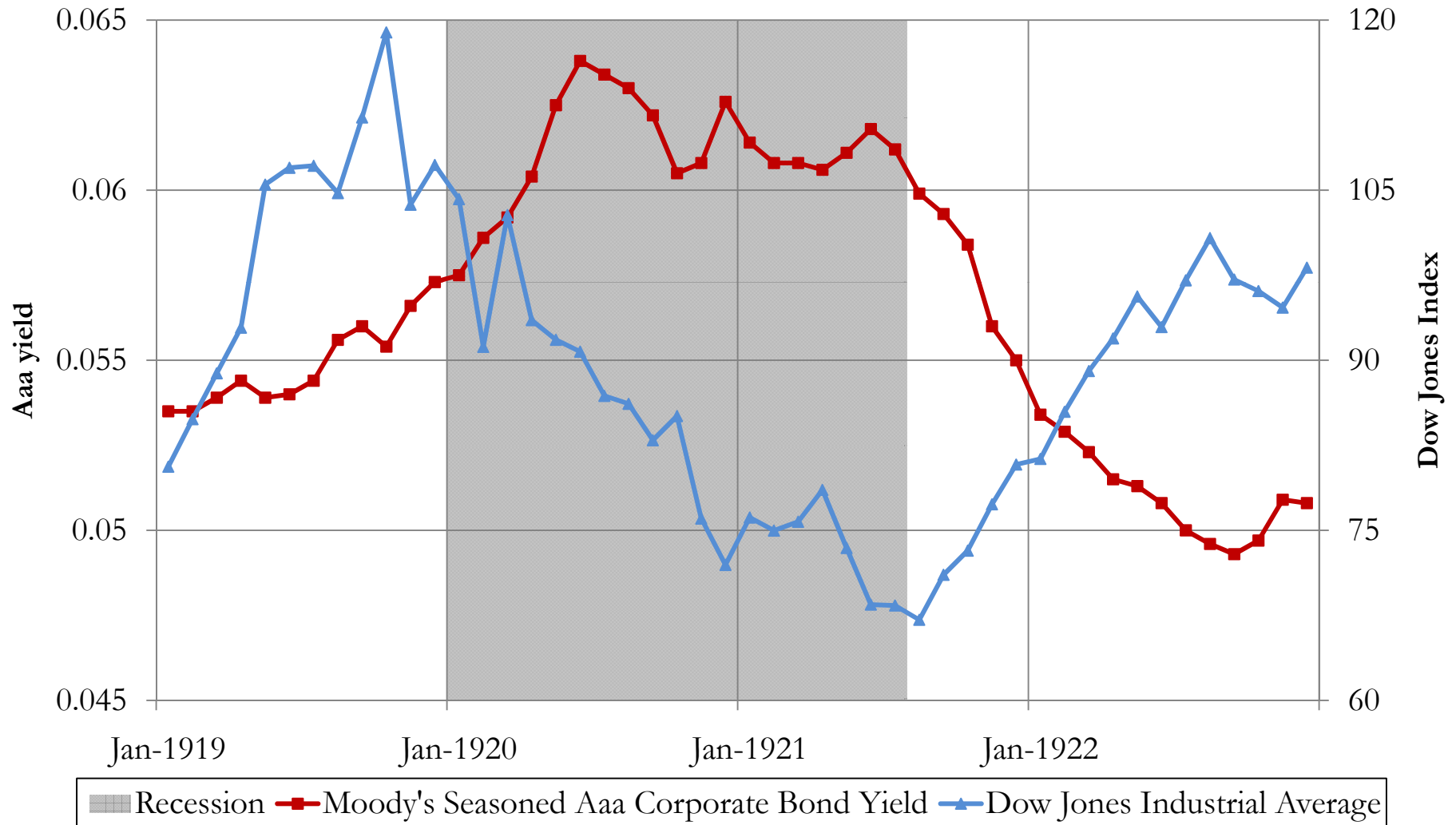
Source: Bureau of Labor Statistics

The CPI did not return to its pre-1920 level until July 1946; the PPI, not until Dec. 1947.

Compare and contrast:

Over the 2007-09 recession, the CPI rose by 2.7% and the PPI fell by 2.5%. The PPI index recovered to its pre-recession level in Jan., 2010.

In 1920-21, there was deflation in stocks and bonds alike



Source: Federal Reserve Bank of St. Louis, the Bloomberg

Policy response, then and now*

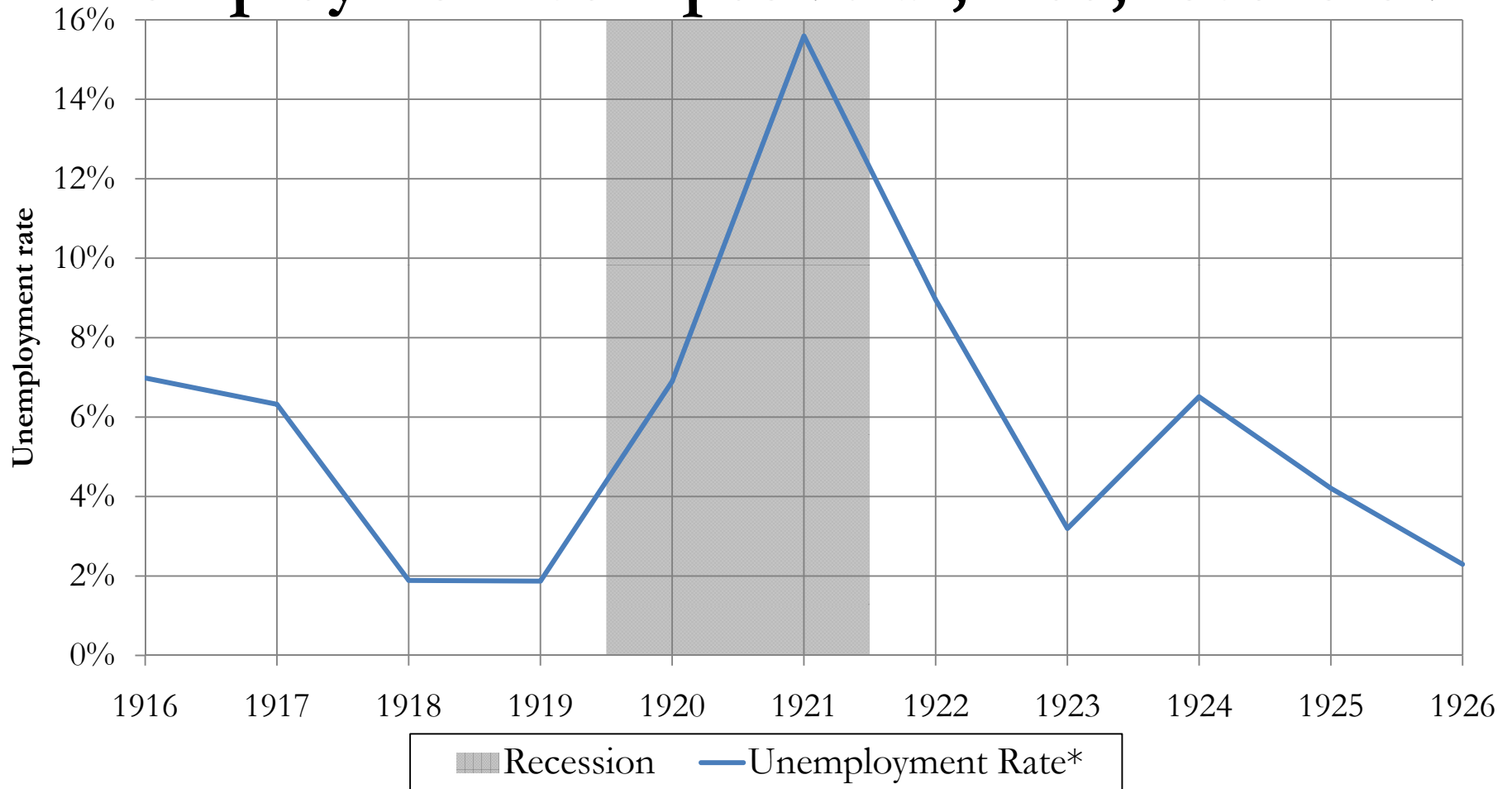
	<u>1920-21</u>	<u>2007-09</u>
money rates	up to 6.4%	down to 1%
trough budget surplus**	0.7%	-10%
Fed assets	down 17.6%	up 126.7%

* measured peak to trough

** as % of GNP / GDP

Source: Banking and Monetary Statistics: 1914-1941, the Bloomberg, Federal Reserve, Office of Management and Budget, Historical Statistics of the United States: Colonial Times to 1970

Attention, Paul Krugman: employment collapsed but, also, recovered



* unemployed / (non-farm payrolls + unemployed)

Source: Historical Statistics of the United States: Colonial Times to 1970