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The current level of short-term interest rates matches the estimated equilibrium level – that is, the rate consistent with normal growth and stable inflation – for the first time since 2005. Policy is beginning to shift into inflationary territory, and will be consistent with rising inflation and interest rates as soon as the second half of 2010.

Inflation is the cumulative effect of the stance of monetary policy over time. By setting short-term interest rates either above or below equilibrium – the level at which the market for loanable funds clears – policymakers put in motion forces that reduce or increase inflation by curtailing or stimulating growth in credit and money.

We measure the stance of monetary policy at any point as the difference between the level of short-term interest rates set by the Fed and the unobservable equilibrium

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rate. We define the thrust of monetary policy as the cumulative effect of the stance of monetary policy in all prior periods.

Coons Advisors' estimates of monetary stance and thrust have corresponded well with major turning points in inflation and interest rates historically. Periods of disinflationary policy have been followed by falling inflation and periods of inflationary policy have been followed by rising inflation.

Jim Coons



