Interest Rates

Percent, weekly averages

YIELD CURVES[a]

April 28, 1995
April 26, 1996
March 29, 1996

3-mo. 6-mo. 1-yr. 2-yr. 3-yr. 5-yr. 7-yr. 10-yr. 30-yr.

Percent, weekly averages

CAPITAL MARKET RATES

A-utility[b]
Home mortgage, primary conventional
30-year Treasury, constant maturity
Municipal bond[c]

1992 1993 1994 1995 1996

Frequency of rates

3-MONTH AND 10-YEAR TREASURY YIELDS

Secondary market 3-month yield
10-year Treasury, constant maturity

Interest rate, percent

Frequency of spread

3-MONTH AND 10-YEAR TREASURY SPREAD[d]

Basis points (in hundreds)
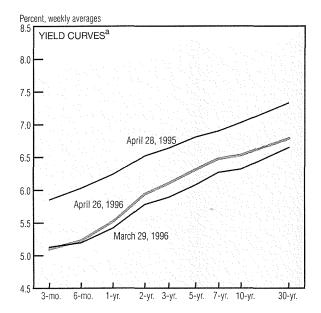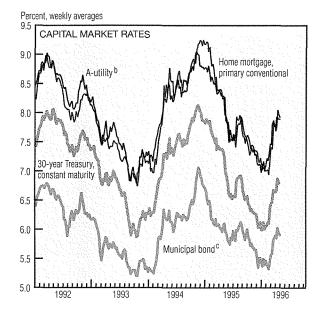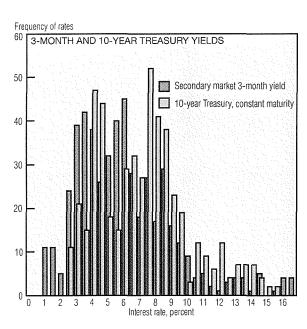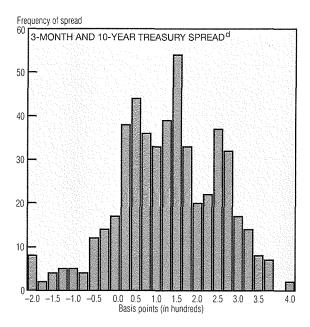
a. 3-month and 6-month instruments are quoted from the secondary market on a yield basis; all other instruments are constant-maturity series.
b. Estimate of the yield on a recently offered, A-rated utility bond with a maturity of 30 years and call protection of five years.
c. Bond Buyer Index, general obligation, 20 years to maturity, mixed quality.
d. 10-year Treasury constant maturity minus the secondary market 3-month yield.
SOURCE: Board of Governors of the Federal Reserve System.

The yield curve has steepened slightly since last month. It remains nearly linear—much as it looked at this time last year. Clearly, fears of an inversion in January did not play out. Two closely watched spreads —the 10-year, 3-month and the 3-year, 3-month—stand at 143 and 100 basis points, above their historic averages of 125 and 85. Some observers attribute the rise in long rates to concerns about inflation and a strong economy (allegedly bad for bonds), but many advise a wait-and-see attitude.

Over the past month, other long rates—including mortgages, municipal bonds, and utility bonds—have edged up in step with 30-year Treasuries, but have fallen more recently. Spreads between these long bonds have remained fairly steady, but have closed slightly in recent weeks: The spread between mortgage and utility bond rates decreased from 14 basis points to 6 between April 12 and April 19.

One way to judge the "normalcy" of today's interest rates is to look at the distribution of interest rates in the recent past. Most yields on 3-month and 10-year Treasury bonds fall between 2% and 9%, placing current yields of 5.10% and 6.53% squarely in the normal range. Even the levels seen in late 1994, when the 10-year rate approached 8%, do not seem out of the ordinary (in 1981, rates exceeded 15%). The spread likewise shows a lot of variability. It commonly moves below zero and above two, making today's level seem downright pedestrian.