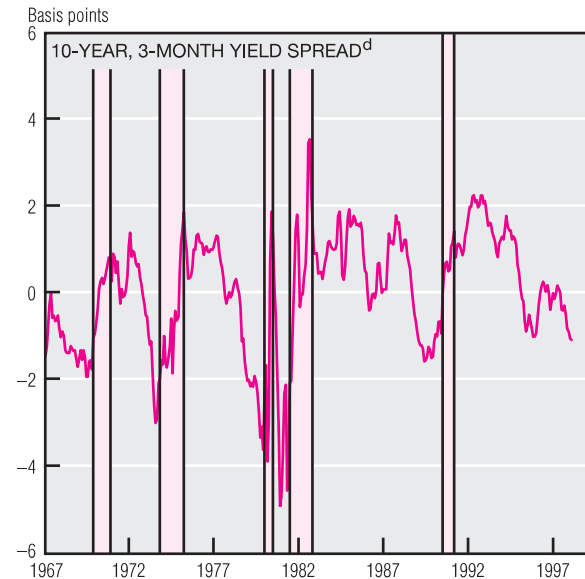
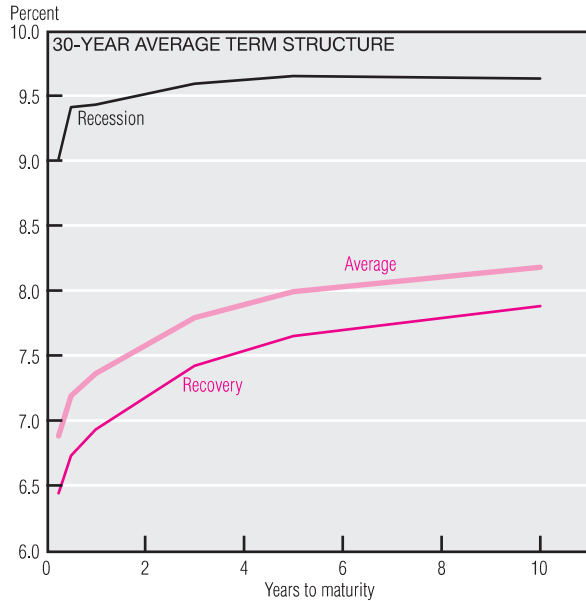
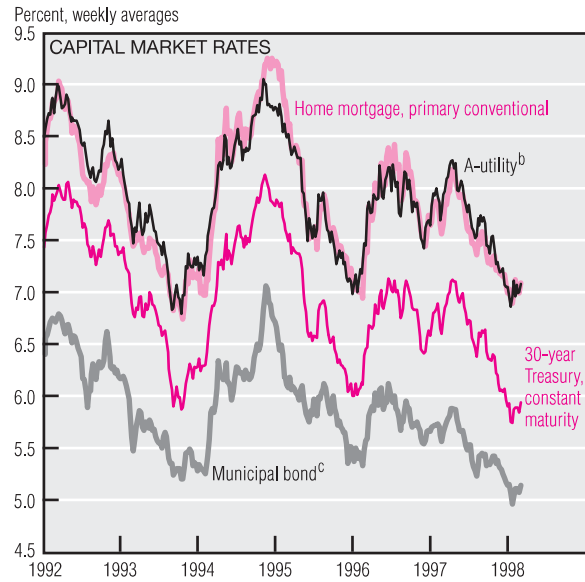
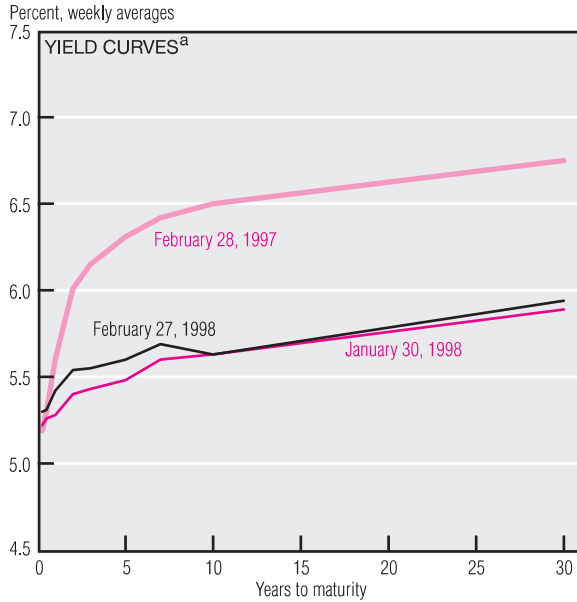


# Interest Rates



a. All 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. Constant-maturity 10-year Treasury bond yield minus the secondary market 3-month Treasury bill yield minus the 30-year average of the spread during recoveries or recessions.

NOTE: Shaded areas indicate recessions.

SOURCE: Board of Governors of the Federal Reserve System.

The yield curve has shifted up a bit since last month, with most of the change coming at the short end. It is also somewhat bumpier than usual, with 7-year rates above 10-year rates.

Overall, the yield curve remains flat by recent experience. The 3-year, 3-month spread stands at 25 basis points (b.p.), and the 10-year, 3-month spread is at 33 b.p., both below their historical averages of 85 and 120, respectively. The longer-term capital market rates show small but steady changes, trending up about 20 basis points since the middle of January.

Municipal and Treasury bond rates rose slightly less (18 and 19 b.p.), while utility bond rates rose a bit more (22 b.p.).

Average yield spreads sometimes provide misleading benchmarks, because average rates and spreads differ considerably between expansions and recessions. Over the past 30 years, interest rates have generally been higher during recessions, while spreads have been lower. The 10-year, 3-month spread averages 144 b.p. in recovery periods, but only 62 b.p. in recessions. Things

are even flatter at the longer ends, with the spread between 10-year and 1-year rates averaging only 20 b.p. during downturns, as opposed to 95 b.p. in recoveries.

These numbers shed some light on recent economic history. During most recoveries, spreads start above the recovery mean, but end below it. Recessions show an inverse pattern, with spreads starting below the recession mean and ending above it. (There are notable exceptions, however, including the 1990–91 downturn.)