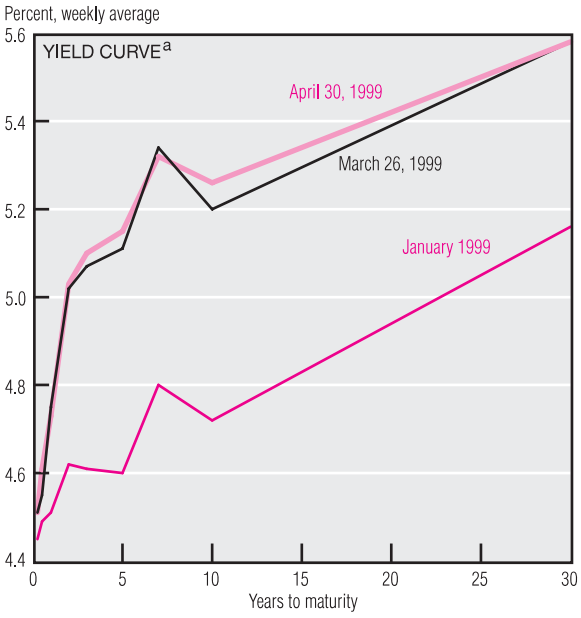
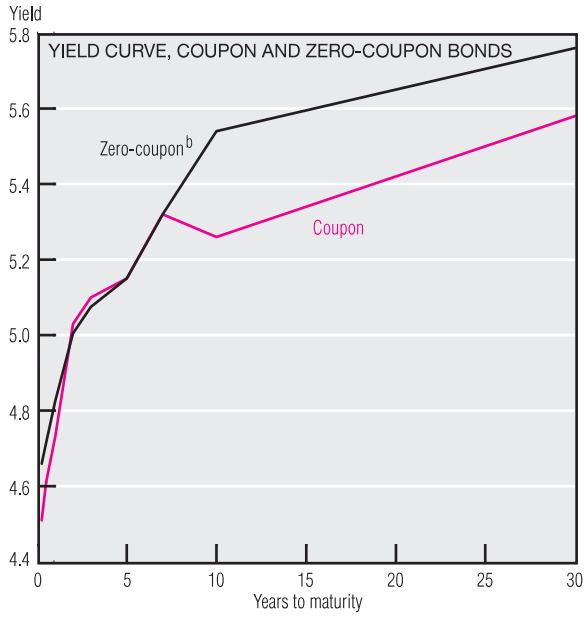
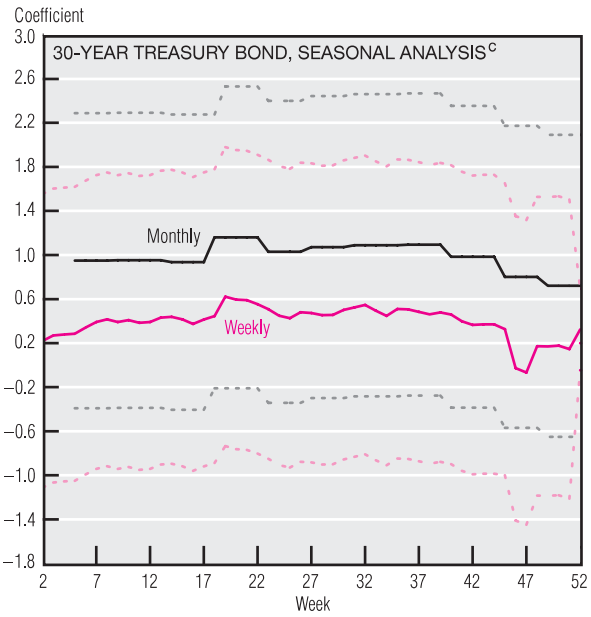
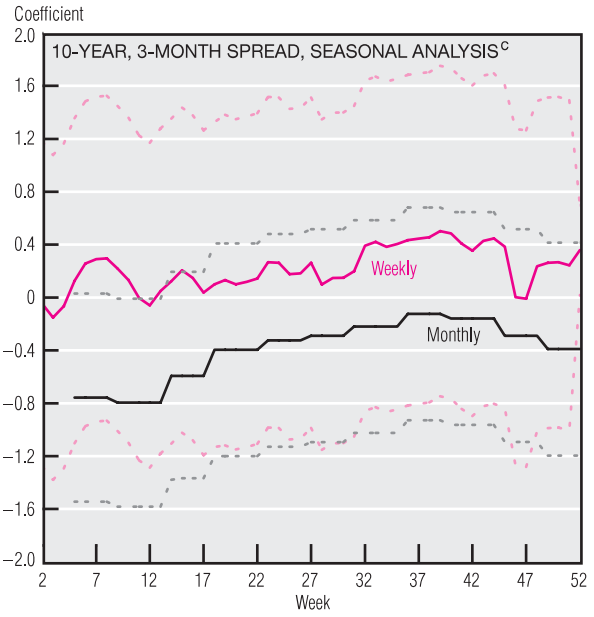
Interest Rates









a. All instruments are Treasury constant-maturity series.
b. For each maturity, the yield is the average of yields on zero-coupon Treasury bonds with that maturity, as of April 30, 1999.
c. Dotted lines mark two standard deviation error bands for the coefficients of the dummy variables, calculated for the period 1980 to the present.
SOURCES: Board of Governors of the Federal Reserve System, "Selected Interest Rates," *Federal Reserve Statistical Release*, H.15; and *The Wall Street Journal*, April 30, 1999.

The yield curve has not moved much since last month. Both the 3-month and 30-year yields remain unchanged at 4.51% and 5.58%, respectively. Most other rates have only inched up, slightly widening the 3-year, 3-month spread from 56 to 59 basis points, and the 10-year, 3-month spread from 69 to 75 basis points. The steady levels suggest that the market has not materially shifted its perceptions of the FOMC's intentions.

Yields on coupon bonds can give a distorted picture of interest rates because the yield on a 10-year bond is effectively the average of the yields on both the principal due in 10 years and on the coupons paid every six months. The yield curve for zero-coupon bonds corrects this effect, though the differences between the curves are not substantial. The somewhat higher rates on longer maturity zeroes are precisely what one would expect with an upward-sloping yield curve: Coupon bonds, averaging in short rates, show a lower yield.

Seasonal cycles show up in many economic data sets, and this makes it tempting to look for them in interest rates as well. One way of exploring seasonality is to regress the rates against weekly (or monthly) dummy variables and look at their patterns. This shows the difference between the average interest rate for that week (or month) and the average for the first week (or month). Thirty-year rates show no strong pattern. The most striking aspect of the data is the large width of the error bands (which fall on both sides of zero), indicating the large nonseasonal variability of rates. The spread, though, is generally higher in the middle of the year. If the pattern holds, the spread should widen as we move into the summer months.