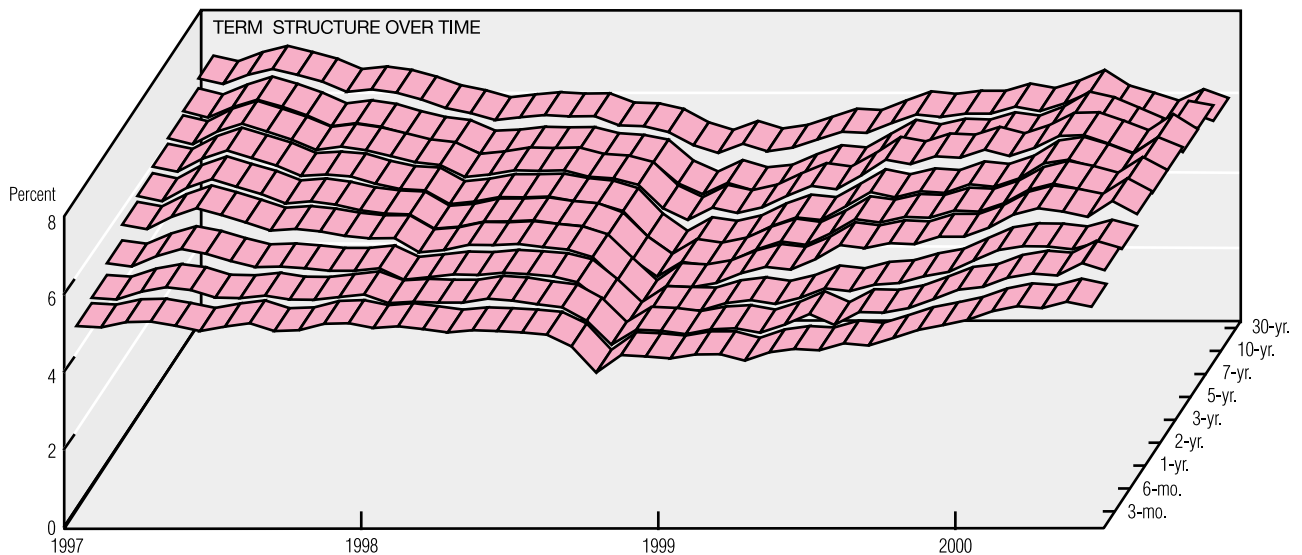
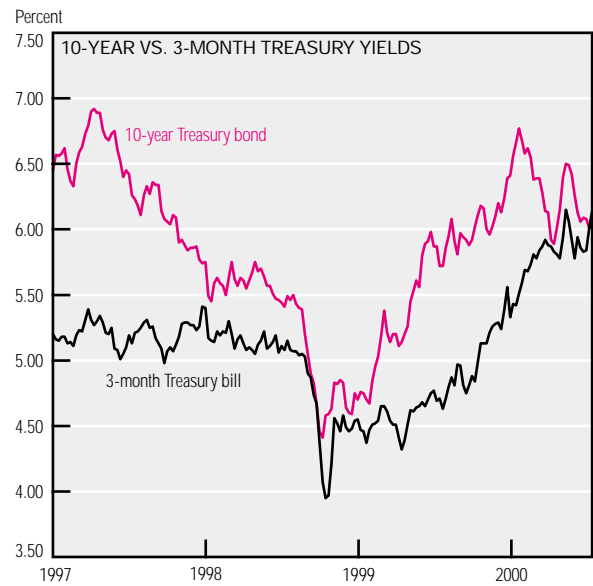
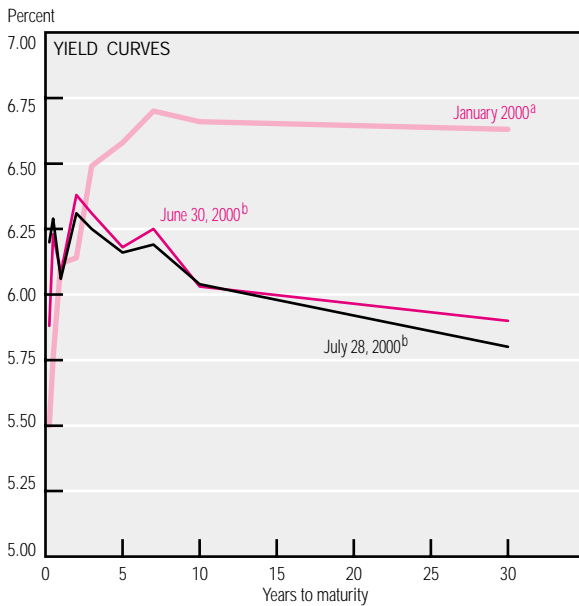


# Interest Rates



a. Monthly average.

b. Average for the week ending on this date.

NOTE: All yields are from constant-maturity series.

SOURCE: Board of Governors of the Federal Reserve System, "Selected Interest Rates," *Federal Reserve Statistical Releases*, H.15.

What is the best way to illustrate interest rate movements? One possibility is to represent different interest rates at a point in time. This is the familiar yield curve, which makes it easy to spot the shift from an upward-sloping curve in January to the current humped shape.

One may also look at one or two rates over time, an approach that brings out temporal patterns. For example, an upward trend in short rates met a downward trend in long rates, moving the 10-year,

3-month spread from an above-average 126 basis points (bp) in late January to an inverted  $-16$  bp at the end of July. This is a classic response to Fed tightening, as higher short-term rates reduce inflationary expectations. Whether this inversion will also be followed by a recession remains to be seen. By focusing on only two rates, however, the time-series plot excludes some important information that is shown in the full yield curve: Another classic recession indicator, the 3-year, 3-month spread, remains

positive, contraindicating a recession in the near future.

It is also possible to plot the entire yield curve over time, producing a three-dimensional chart, of which the previous two charts are sections along different axes. This method highlights broad trends across many interest rates. The flight to quality of late 1998, a response to the Russian default and the Long Term Capital Management debacle, shows up clearly, as does the general increase in rates since then.