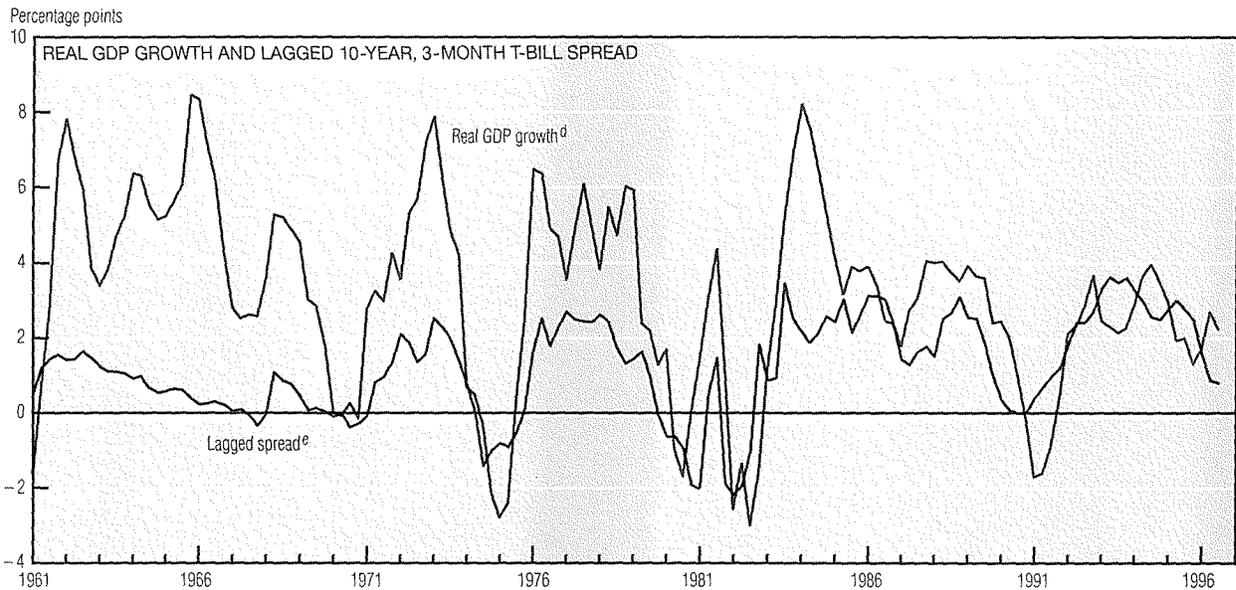
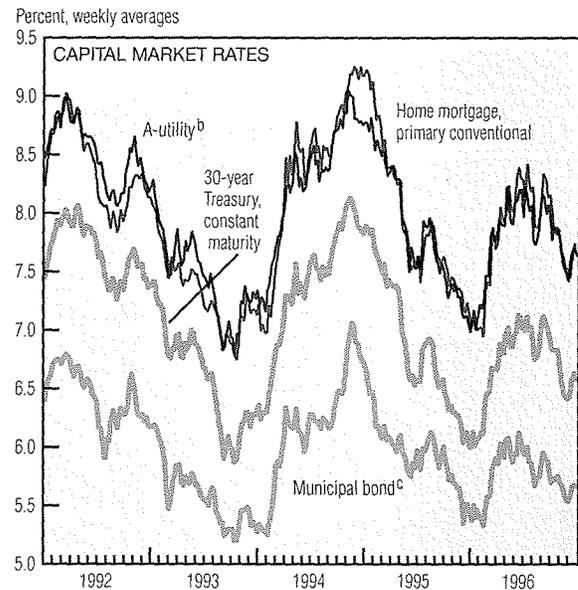
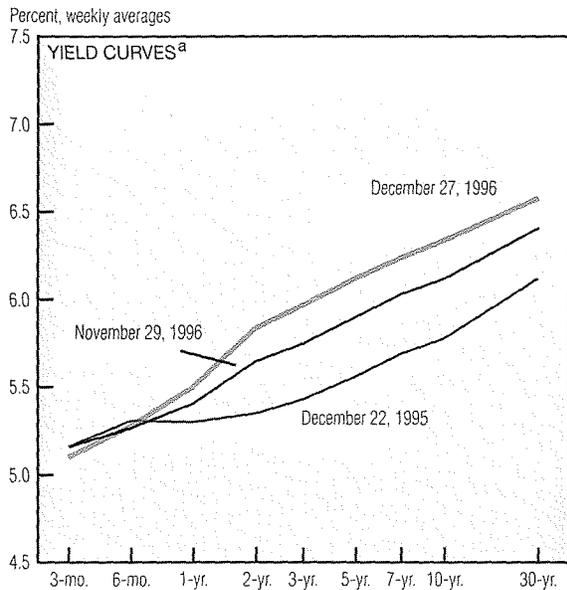


# Interest Rates



- 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. Percent change from corresponding quarter of previous year.  
 e. Constant-maturity 10-year Treasury bond yield minus constant-maturity 3-month Treasury bill yield, lagged four quarters.
- SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; and Board of Governors of the Federal Reserve System.

The yield curve has steepened over the last month and remains steeper than at this time last year, being higher at the long end and lower at the short. Two closely watched spreads, the 3-year, 3-month and the 10-year, 3-month, stand at 87 and 124 basis points, at or slightly above their 30-year averages of 80 and 125 basis points.

Long-term capital rates reflect the increase in long-maturity Treasuries. Home mortgage rates began their upturn a bit later, and have

moved slightly less, than 30-year Treasuries, utility bonds, and municipal bonds.

People commonly use term structure to predict future GDP growth, but they disagree over why it should do so—whether it anticipates future policy actions, reacts to shocks more quickly than does the real economy, or both. However, the emerging consensus is that the yield curve does indeed predict future real activity. Most dramatically, yield curve inversions (where the spread goes

negative as short rates exceed long rates) often herald recessions, whereas steep yield curves indicate strong economic growth. This relation is particularly apparent in the chart comparing real GDP growth with the 10-year, 3-month spread one year (four quarters) in the past. This suggests that the current above-average spread portends robust growth over the next year, but variability in the chart also means that there is no guarantee.