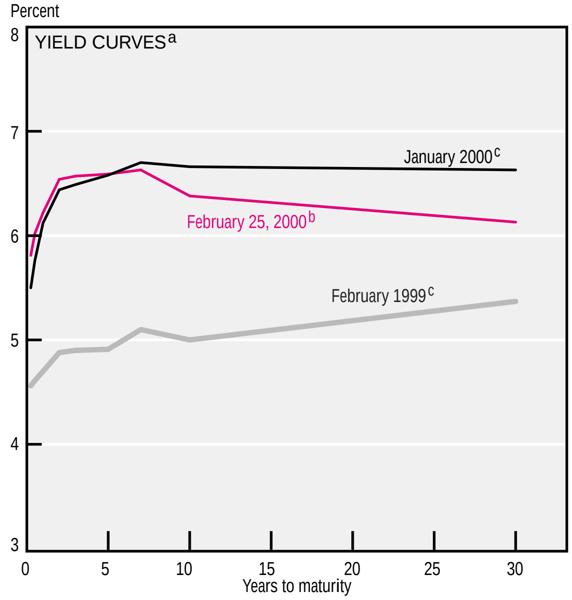
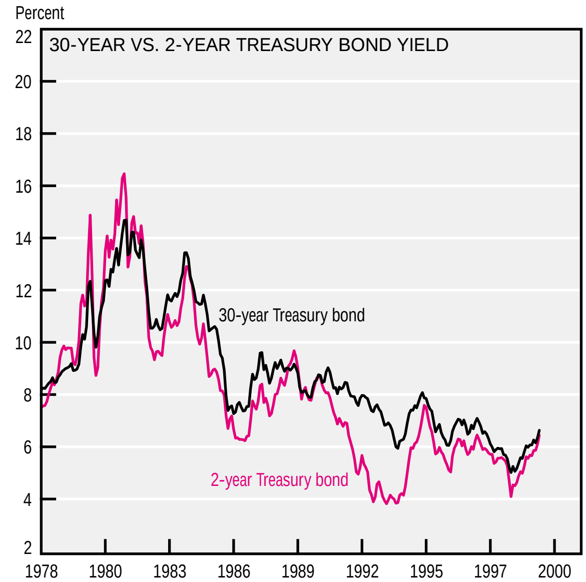
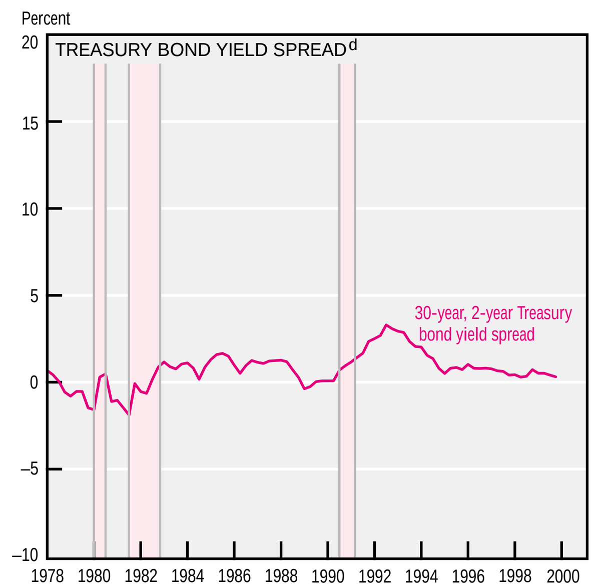
Interest Rates





Interest-Bearing Public Debt Outstanding (millions of dollars)	January 31, 1999	January 31, 2000
Treasury bills	662,725	669,954
Treasury notes	1,917,738	1,764,027
Treasury bonds	621,166	643,695
Treasury inflation-indexed notes	59,131	74,563
Treasury inflation-indexed bonds	17,043	32,561
Federal financing bank	15,000	15,000
Total marketable	**3,292,804**	**3,199,800**



a. All yields are from constant-maturity series.
b. Averages for the week of February 25, 2000.
c. Monthly averages.
d. Shaded areas indicate recessions.
SOURCES: U.S. Department of the Treasury, Bureau of the Public Debt; U.S. Department of Commerce, Bureau of Economic Analysis; and Board of Governors of the Federal Reserve System, "Selected Interest Rates," *Federal Reserve Statistical Releases*, H.15.

Unlike most, this month's yield curve cannot be described as either flatter or steeper than last month's. Rather, it is more hump-shaped. The inversion at the long end has become more pronounced, as the 30-year rate fell below even the 1-year rate. The short end remains upward sloping, however, with the 3-year, 3-month spread at 76 basis points (bp), near its historical average; likewise, the 10-year, 3-month spread remains positive at 57 bp.

The current inversion at the long end represents a small shift among spreads that have been relatively stable since 1995. A new concern is the federal budget surplus and the consequent reduction of Treasury debt. Surprisingly, yields have fallen most for Treasury bonds (with maturities of 10 years or more), whose supply actually has increased over the past year. Chalk this one up to expectations. Early in February, the Treasury announced that it will buy back $30 billion of debt, concentrating initially on the longer-term maturities (though full details have not been announced).

Does this inversion portend anything about the future of the economy? The traditional wisdom is that inversions imply, or at least suggest, recessions. The 30-year, 2-year spread has gone negative prior to the last several recessions. Since other spreads thought to predict recessions (particularly the 10-year, 3-month spread) remain positive, any prediction based on the long spread should be treated with caution.