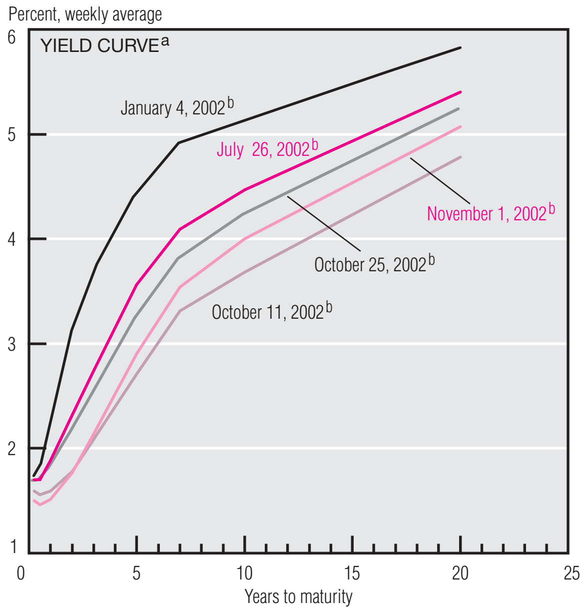
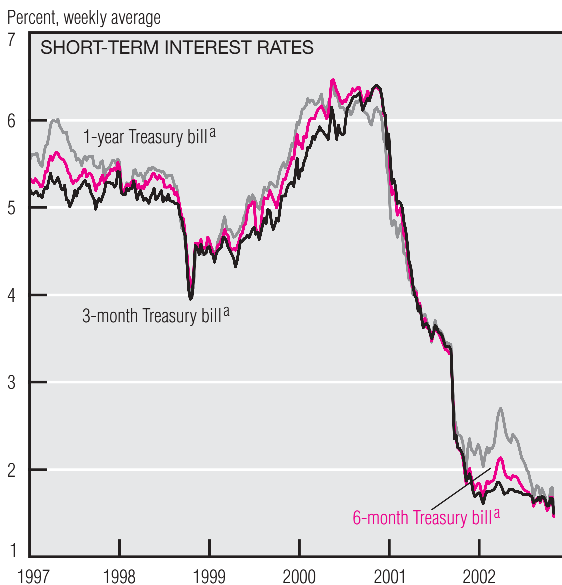
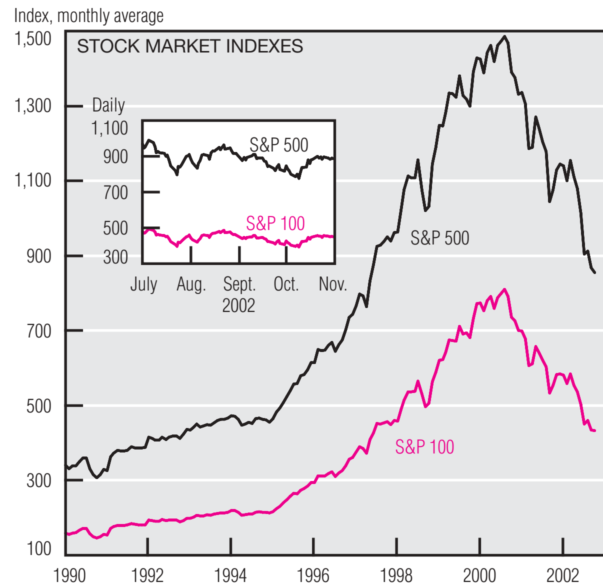
Money and Financial Markets







a. All yields are from constant-maturity series.
b. Average for the week ending on this date.
SOURCES: Board of Governors of the Federal Reserve System, "Selected Interest Rates," *Federal Reserve Statistical Releases,* H.15; and Bloomberg Financial Information Services.

Toward the end of October, the yield curve became slightly inverted, with the six-month Treasury bill yield falling below the three-month yield. This inversion probably was driven by expected cuts in the federal funds rate. The yield curve also steepened significantly during October when, on net, long-term rates rose and short-term rates fell. Nonetheless, the curve remains fairly flat at the short end, as it has for much of the year.

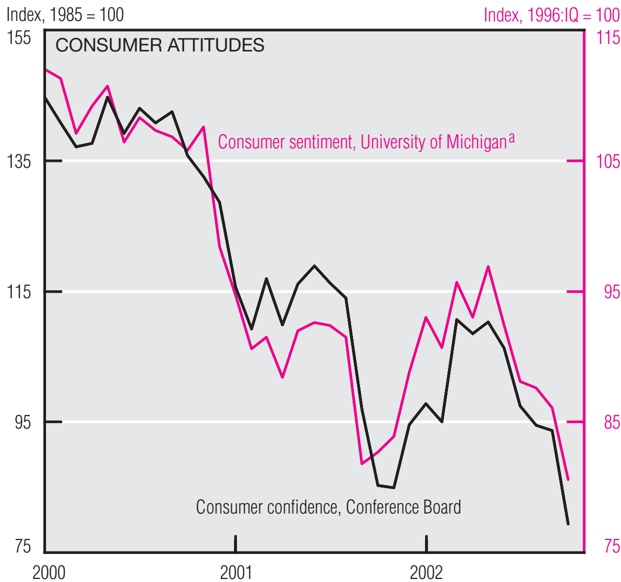
From the end of March 2002 through the first part of October, long-term rates followed a strong downward trend, reflecting expectations of lower future inflation or lower real interest rates. After declining 170 basis points (bp) between late March and mid-October, the 10-year Treasury note has rebounded more than 30 bp. The 20-year Treasury bond and conventional mortgage rates also showed net increases in the last half of October, although to a lesser degree.

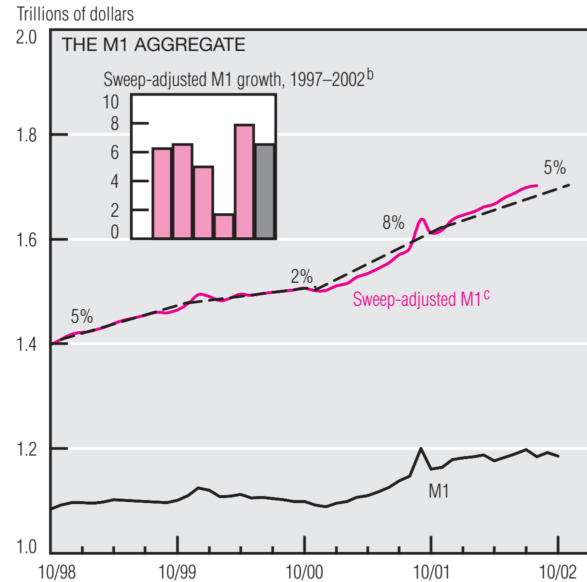
Short-term rates displayed much less variability over the same period. Only the one-year Treasury bill showed a pattern similar to that of longer-term rates, falling 115 bp between the end of March and the first part of October. The rates on three- and six-month Treasury bills have shown little trend throughout most of the year. All short-term rates fell precipitously in the last week of October amid strengthened expectations that the federal funds rate would drop over the next few months.

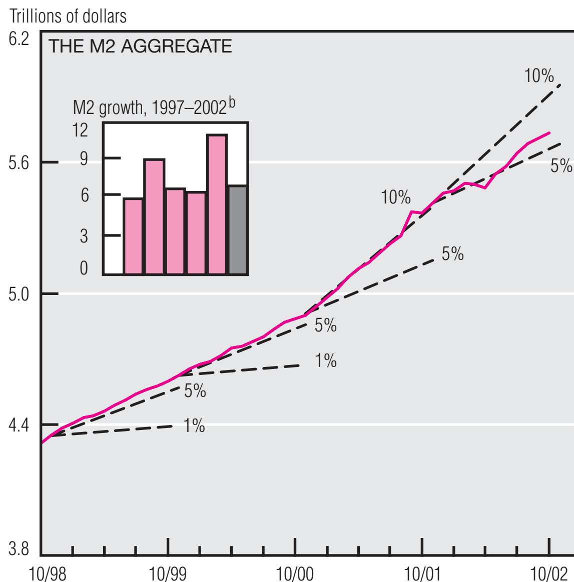
After peaking in March 2000, the S&P 100 and 500 stock market indexes have fallen dramatically. Having retraced their strong growth of the late 1990s, these indexes are now roughly at spring 1997 levels.

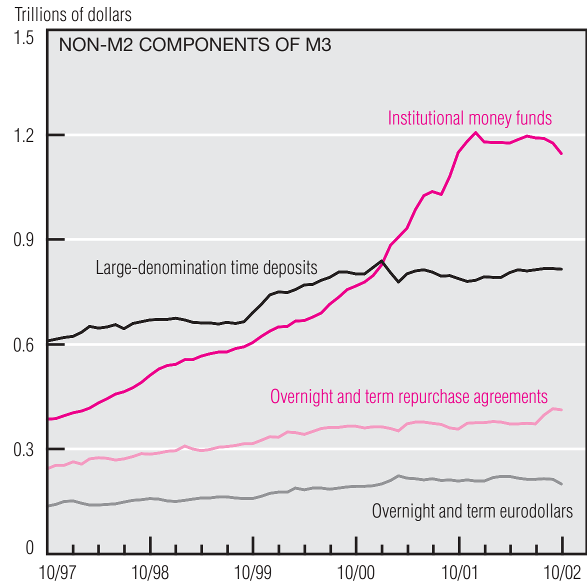
(continued on next page)

Money and Financial Markets *(cont.)*









a. Data are not seasonally adjusted.
b. Growth rates are calculated on a fourth-quarter over fourth-quarter basis. The 2002 growth rate for M2 is calculated on a September over 2001:IVQ basis. The 2002 growth rate for the sweep-adjusted M1 is calculated on an August over 2001:IVQ basis. Data are seasonally adjusted.
c. Sweep-adjusted M1 contains an estimate of balances temporarily moved from M1 to non-M1 accounts.
SOURCES: Board of Governors of the Federal Reserve System, "Money Stock Measures," *Federal Reserve Statistical Releases*, H.6; University of Michigan; Conference Board; and Bloomberg Financial Information Services.

Both indexes, however, improved somewhat in the last three weeks of October, with the S&P 500 increasing 4.5% for the month.

Consumer confidence, as measured by the Conference Board index, fell to 79.4 in October, considerably lower than expected. This marked the index' fifth consecutive decline and its largest monthly percentage decline since July 1992. The Conference Board index reflects consumers' perceptions of the present situation and their expectations of future conditions. Most components of the index declined, but the expectations component was the hardest hit. Consumers expressed concern about the stock market outlook; however, the survey was conducted before recent market gains. The University of Michigan index of consumer sentiment also fell in October. Both indexes are now at their lowest levels since 1993.

After increasing 7.9% during 2001, the growth rate of sweep-adjusted M1 has moderated this year to an annualized 6.5%. Growth in M2 also moderated in 2002 relative to last year's strong growth of 10.3%. So far this year, M2 has grown at a 6.6% annualized rate. Year-to-date growth rates for both M1 and M2 remain in line with growth in nominal income, suggesting hat inflationary pressures could remain low.

The composition of M3 has also shifted recently. Institutional money funds have fallen in each of the last four months, but these decreases were partially offset by increases in overnight and term repurchase agreements. Although money funds often swell during periods of stock market uncertainty, this has not occurred in recent months.