<u>Meeting of the Federal Open Market Committee</u>

<u>August 21, 1990</u>

<u>Minutes of Actions</u>

A meeting of the Federal Open Market Committee was held in the offices of the Board of Governors of the Federal Reserve System in Washington, D.C., on Tuesday, August 21, 1990, at 9:00 a.m.

PRESENT: Mr. Greenspan, Chairman
Mr. Corrigan, Vice Chairman
Mr. Angell
Mr. Boehne
Mr. Boykin
Mr. Hoskins
Mr. Kelley
Mr. LaWare
Mr. Mullins
Ms. Seger
Mr. Stern

Messrs. Forrestal, Keehn, and Parry, Alternate Members of the Federal Open Market Committee

Messrs. Guffey, Melzer, and Syron, Presidents of the Federal Reserve Banks of Kansas City, St. Louis, and Boston, respectively

Mr. Kohn, Secretary and Economist
Mr. Bernard, Assistant Secretary
Mr. Gillum, Deputy Assistant Secretary
Mr. Mattingly, General Counsel
Mr. Prell, Economist
Mr. Truman, Economist

Messrs. J. Davis, R. Davis, Lindsey, Rosenblum, Siegman, Simpson, and Stockton, Associate Economists

Mr. Sternlight, Manager for Domestic Operations, System Open Market Account

Mr. Cross, Manager for Foreign Operations, System Open Market Account

Mr. Coyne, Assistant to the Board, Board of Governors
Mr. Ettin, Deputy Director, Division of Research and Statistics, Board of Governors
Mr. Slifman, Associate Director, Division of Research and Statistics, Board of Governors
Mr. Hooper, Assistant Director, Division of International Finance, Board of Governors
Ms. Low, Open Market Secretariat Assistant, Division of Monetary Affairs, Board of Governors

Mr. Monhollon, First Vice President, Federal Reserve Bank of Richmond

Messrs. Balbach, Beebe, Broaddus, T. Davis, and Scheld, Senior Vice Presidents, Federal Reserve Banks of St. Louis, San Francisco, Richmond, Kansas City, and Chicago, respectively

Messrs. Fieleke, Meyer, Miller and Ms. White, Vice Presidents, Federal Reserve Banks of Boston, Philadelphia, Minneapolis, and New York, respectively

Ms. Rosenbaum, Research Officer, Federal Reserve Bank of Atlanta

By unanimous vote, the minutes of actions taken at the meeting of the Federal Open Market Committee held on July 2-3, 1990, were approved.

By unanimous vote, System open market transactions in government securities and federal agency obligations during the period July 3, 1990, through August 20, 1990, were ratified.

By unanimous vote, the Federal Reserve Bank of New York was authorized and directed, until otherwise directed by the Committee, to execute transactions in the System Account in accordance with the following domestic policy directive:

> The information reviewed at this meeting suggests that economic activity is continuing to expand at a relatively slow pace. After a sizable rise in May and June, total nonfarm payroll employment registered a large decline in July, much but not all of which reflected layoffs of temporary census workers. The civilian unemployment rate rose to 5.5 percent in July, just above the narrow range that had prevailed for an extended period. Industrial production was unchanged in July after rising appreciably in the second quarter. Retail sales rose considerably on balance over June and July after declines in earlier months. Available indicators point to a sluggish trend in business capital spending. Residential

construction weakened further in July. The nominal U.S. merchandise trade deficit narrowed sharply in June; for the second quarter, the trade deficit was substantially reduced from its first-quarter rate. Consumer prices rose appreciably further in June and July, while producer prices were about unchanged over the two months. The latest data on labor costs suggest no improvement in underlying trends. Crude oil prices have risen sharply over the last several weeks.

Short-term interest rates have fallen somewhat since the Committee meeting on July 2-3, while rates in bond markets have risen appreciably, as oil prices have increased. The trade-weighted foreign exchange value of the dollar in terms of the other G-10 currencies declined considerably over the intermeeting period.

M2 grew slowly in June and July, while M3 was little changed; available data for August suggest a partial rebound in both aggregates. Growth of M2 and especially of M3 has been damped by the continuing contraction of deposits at thrift institutions resulting from the restructuring of the thrift industry. Through July, expansion of both M2 and M3 was estimated to be in the lower portions of their respective ranges for 1990. Expansion of total domestic nonfinancial debt appears to have been near the midpoint of its monitoring range.

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability, promote growth in output on a sustainable basis, and contribute to an improved pattern of international transactions. In furtherance of these objectives, the Committee at its meeting in July reaffirmed the range it had established in February for M2 growth of 3 to 7 percent, measured from the fourth quarter of 1989 to the fourth quarter of 1990. The Committee in July also retained the monitoring range of 5 to 9 percent for the year that it had set for growth of total domestic nonfinancial debt. With regard to M3, the Committee recognized that the ongoing restructuring of thrift depository institutions had depressed its growth relative to spending and total credit more than anticipated. Taking account of the unexpectedly strong M3 velocity, the Committee decided in July to reduce the 1990 range to 1 to 5 percent. For 1991, the Committee agreed on provisional ranges for monetary growth, measured from the fourth quarter of 1990 to the fourth quarter of 1991, of 2-1/2 to 6-1/2 percent for M2 and 1 to 5 percent for M3. The Committee tentatively set the associated monitoring range for growth of total domestic non-financial debt at 4-1/2 to 8-1/2 percent for 1991. The behavior of the monetary aggregates will continue to be evaluated in the light of progress toward price level stability, movements in their velocities, and developments in the economy and financial markets.

In the implementation of policy for the immediate future, the Committee seeks to maintain the existing degree of pressure on reserve positions. Taking account of progress toward price stability, the strength of the business expansion, the behavior of the monetary aggregates, and developments in foreign exchange and domestic financial markets, slightly greater reserve restraint might or somewhat lesser reserve restraint would be acceptable in the inter-meeting period. The contemplated reserve conditions are expected to be consistent with growth of M2 and M3 over the period from June through September at annual rates of about 4 and 2-1/2 percent respectively. The Chairman may call for Committee consultation if it appears to the Manager for Domestic Operations that reserve conditions during the period before the next meeting are likely to be associated with a federal funds rate persistently outside a range of 6 to 10 percent.

It was agreed that the next meeting of the Committee would be held on Tuesday October 2, 1990.

The meeting adjourned.

Secretary