Meeting of the Federal Open Market Committee

December 18, 1990

Minutes of Actions

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, December 18, 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. Black, 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, Lang, Lindsey, Promisel, Rolnick, Rosenblum, Siegman, Simpson, and Stockton, Associate Economists

Mr. Sternlight, Manager for Domestic 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
Ms. Low, Open Market Secretariat Assistant, Division of Monetary Affairs, Board of Governors

Messrs. Beebe, T. Davis, Ms. Greene, Mr. Scheld, and Ms. Tschinkel, Senior Vice Presidents, Federal Reserve Banks of San Francisco, Kansas City, New York, Chicago, and Atlanta, respectively

Mr. McTeer, Senior Vice President, Baltimore Branch

Messrs. Goodfriend and McNees, Vice Presidents, Federal Reserve Banks of Richmond and Boston, respectively

Messrs. Guentner and Thornton, Assistant Vice Presidents, Federal Reserve Banks of New York and St. Louis, respectively

By unanimous vote, the minutes of actions taken at the meeting of the Federal Open Market Committee held on November 13, 1990, were approved.

By unanimous vote, System open market transactions in government securities and federal agency obligations during the period November 13, 1990, through December 17, 1990, were ratified.

By unanimous vote, paragraph 1.A of the Authorization for Domestic Open Market Operations was amended to raise from $8 billion to $14 billion the dollar limit on intermeeting changes in System Account holdings of U.S. government and federal agency securities for the intermeeting period through February 6, 1991.

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 appreciable weakening in economic activity. Total nonfarm payroll employment fell sharply further in November, reflecting widespread job losses that were especially pronounced in manufacturing and construction; the civilian unemployment rate rose to 5.9 percent. Industrial output declined markedly in October and November, in part because of sizable cutbacks in the production of motor vehicles. Retail sales were weak in real terms in October and November; real disposable income has been reduced not only by a decrease in total hours worked but also by the effects of higher energy prices. Advance indicators of business capital spending point to considerable softening in investment in coming months. Residential construction has declined substantially further in recent months. The nominal U.S. merchandise trade deficit widened in October from its average rate in the third quarter as non-oil imports rose more sharply than exports. Increases in consumer prices moderated in November largely as a result of a softening in oil prices. The latest data on labor costs suggest some improvement from earlier trends.

Most interest rates have fallen appreciably since the Committee meeting on November 13. In foreign exchange markets, the trade-weighted value of the dollar in terms of the other G-10 currencies rose slightly on balance over the intermeeting period.

M2 was about unchanged on balance over October and November after several months of relatively limited expansion, while M3 declined slightly in both months. From the fourth quarter of 1989 through November, expansion of M2 was estimated to be in the lower half of the Committee's range for the year and growth of M3 near the lower end of its range. 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 nonfinancial 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 decrease slightly the existing degree of pressure on reserve positions, taking account of a possible change in the discount rate. Depending upon progress toward price stability, trends in economic activity, 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 intermeeting period. The contemplated reserve conditions are expected to be consistent with growth of M2 and M3 over the period from November through March at annual rates of about 4 and 1 percent, respectively.

It was agreed that the next meeting of the Committee would be held on Tuesday-Wednesday, February 5-6, 1991.

The meeting adjourned.

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Secretary