

Meeting of the Federal Open Market Committee
October 1, 1991
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, October 1, 1991, at 9:00 a.m.

PRESENT: Mr. Greenspan, Chairman
Mr. Corrigan, Vice Chairman
Mr. Angell
Mr. Black
Mr. Forrestal
Mr. Keehn
Mr. Kelley
Mr. LaWare
Mr. Mullins
Mr. Parry

Messrs. Hoenig, Melzer, and Syron, Alternate
Members of the Federal Open Market Committee

Messrs. Boehne, McTeer, and Stern, Presidents of
the Federal Reserve Banks of Philadelphia,
Dallas, and Minneapolis, respectively

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

Messrs. Beebe, Broadus, R. Davis, Lindsey,
Promisel, Scheld, Simpson, Slifman,
and Ms. Tschinkel, Associate Economists

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

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

Mr. Ettin, Deputy Director, Division of Research and Statistics, Board of Governors
Mr. Stockton, Associate Director, Division of Research and Statistics, Board of Governors
Ms. Johnson, Assistant Director, Division of International Finance, Board of Governors
Ms. Low, Open Market Secretariat Assistant, Division of Monetary Affairs, Board of Governors

Mr. Hendricks, First Vice President, Federal Reserve Bank of Cleveland
Messrs. Balbach, J. Davis, T. Davis, Lang, Ms. Munnell, Messrs. Rolnick, and Rosenblum, Senior Vice Presidents, Federal Reserve Banks of St. Louis, Cleveland, Kansas City, Philadelphia, Boston, Minneapolis, and Dallas, respectively

Secretary's Note: Prior to this meeting, notice had been received of the election of Thomas M. Hoenig as alternate member of the Federal Open Market Committee for the period October 1, 1991 through December 31, 1991, and Mr. Hoenig had executed his Oath of Office.

By unanimous vote, the minutes of actions taken at the meeting of the Federal Open Market Committee held on August 20, 1991, were approved.

By unanimous vote, System open market transactions in government securities and federal agency obligations during the period August 20, 1991, through September 30, 1991, 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 has been mixed, but it suggests on balance that economic activity has been expanding at a moderate pace. Total nonfarm payroll employment changed little over July and August, and the civilian unemployment rate was 6.8 percent in both months. Employment in manufacturing continued to advance in August, and industrial production posted a further rise after several months of sizable gains. Consumer spending increased considerably on balance in July and August. Recent data on orders and shipments of nondefense capital

goods point to a small increase in real outlays for business equipment, but nonresidential construction has remained weak. Housing starts rose only slightly further in July and August after increasing appreciably on balance since January. The nominal U.S. merchandise trade deficit widened substantially in July and was considerably above its average rate in the second quarter. Increases in consumer prices have been small in recent months, owing to declines in food and energy prices.

Most interest rates have declined further since the Committee meeting on August 20. The Board of Governors approved a reduction in the discount rate from 5-1/2 to 5 percent on September 13. The trade-weighted value of the dollar in terms of the other G-10 currencies fell sharply over the intermeeting period; much of the drop retraced the previous run-up associated with the attempted coup in the Soviet Union that began shortly before the August Committee meeting.

After contracting in July, M2 was about unchanged in August and September. M3 declined further in July and August and is indicated to have changed little in September. For the year thus far, expansion of M2 and M3 has been at the lower end of the Committee's ranges.

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output. In furtherance of these objectives, the Committee at its meeting in July reaffirmed the ranges it had established in February for growth of M2 and M3 of 2-1/2 to 6-1/2 percent and 1 to 5 percent, respectively, measured from the fourth quarter of 1990 to the fourth quarter of 1991. The monitoring range for growth of total domestic nonfinancial debt also was maintained at 4-1/2 to 8-1/2 percent for the year. For 1992, on a tentative basis, the Committee agreed in July to use the same ranges as in 1991 for growth in each of the monetary aggregates and debt, measured from the fourth quarter of 1991 to the fourth quarter of 1992. With regard to M3, the Committee anticipated that the ongoing restructuring of thrift depository institutions would continue to depress the growth of this aggregate relative to spending and total credit. 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. 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 slightly 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 September through December at annual rates of about 3 and 1-1/2 percent, respectively.

It was agreed that the next meeting of the Committee would be held on Tuesday, November 5, 1991.

The meeting adjourned.

Secretary