FEDERAL RESERVE press release

For Use at 4:30 p.m. August 19, 1988

The Federal Reserve Board and the Federal Open Market Committee today released the attached record of policy actions taken by the Federal Open Market Committee at its meeting on June 29-30, 1988.

Such records for each meeting of the Committee are made available a few days after the next regularly scheduled meeting and are published in the Federal Reserve Bulletin and the Board's Annual Report. The summary descriptions of economic and financial conditions they contain are based solely on the information that was available to the Committee at the time of the meeting.

Attachment

RECORD OF POLICY ACTIONS OF THE
FEDERAL OPEN MARKET COMMITTEE

Meeting Held on June 29-30, 1988

Domestic policy directive

The information reviewed at this meeting suggested that economic activity was continuing to expand at a relatively vigorous pace, though apparently not quite as rapidly as earlier this year. Growth in output was being sustained by considerable strength in manufacturing; the latter appeared to reflect in part a continuing improvement in the nation's trade balance as well as ongoing expansion in domestic demands. Various measures of prices and wages suggested some intensification of inflation in recent months.

Growth in nonfarm payroll employment moderated somewhat in April and May, particularly in construction, trade, and services. However, manufacturing employment and the average workweek showed continued strength. In May, household employment fell sharply and reversed a large gain in April. The civilian unemployment rate rose from 5.4 percent in April to 5.6 percent in May, but it remained slightly below the first-quarter average.

Industrial production increased considerably in April and May. Assemblies of motor vehicles and the production of capital goods rose substantially in both months. The output of materials also strengthened over the two months, but that of nonauto consumer goods edged down. There were widespread increases in capacity utilization rates in April and May. Those rates have risen to high levels in primary processing industries.

After increasing appreciably in the first quarter, retail sales were little changed on balance over April and May. Sales of durable goods edged down from recent advanced levels, while spending on nondurable goods extended the sluggish pattern in evidence over the previous two quarters. Housing starts fell to an annual rate of 1.38 million units in May, down from a rate of approximately 1-1/2 million units over the preceding three months. Despite the decline, data on building permits and home sales suggested that the pace of housing activity was little changed.

Business fixed investment also appeared to have leveled off at a high rate recently. Outlays for structures increased in April, particularly in the industrial sector, but new commitments for nonresidential construction were trending down. While new orders for nondefense capital goods showed little change in April and May, the latest survey data implied further gains in capital spending over the second half of 1988. Nonfarm inventory investment in April remained close to its first-quarter pace. The buildup in stocks continued to be sizable in manufacturing and wholesale trade and was concentrated in industries experiencing strong domestic and foreign demand. At the retail level, nonauto inventory investment slowed sharply in April, while inventories of automotive products rose somewhat after declining substantially in the first quarter.

The U.S. merchandise trade deficit narrowed in April on a seasonally adjusted basis, essentially reflecting a decline in imports across a wide range of commodity categories. Exports fell slightly in April after a large increase in March. Real economic activity expanded

strongly during the first quarter in most of the major foreign industrial countries, but available indicators pointed to some slowing in second quarter, while inflation remained subdued.

Over April and May, the consumer price index rose at about the average pace of the first quarter, despite a sizable advance in retail food and energy prices. At the producer level, prices of finished goods continued to increase in May at the quickened pace of the previous two months. Prices of a broad range of commodities, particularly agricultural goods, increased sharply in the past few weeks, in part because of the effects of the drought. The rise in average hourly earnings of private nonfarm workers picked up significantly in April and May.

The dollar firmed considerably in foreign exchange markets from late May through mid-June, and it subsequently appreciated further in the days leading up to the Committee meeting. In relation to other G-10 currencies, the dollar finished the period on average about 6 percent above its level at the time of the previous Committee meeting on May 17. Continuing improvement in the U.S. trade balance and perceptions that inflationary pressures would be resisted with tighter monetary policy helped to strengthen the dollar.

At its previous meeting in May, the Committee adopted a directive that called initially for maintaining the existing degree of pressure on reserve positions. The Committee agreed that some slight firming would be implemented after a short interval following this meeting, assuming that economic and financial conditions did not diverge significantly from the members' expectations. In particular, the conduct of open market operations would take account of conditions in

financial markets, the strength of the business expansion, indications of inflation, the performance of the dollar in foreign exchange markets, and the behavior of the monetary aggregates. Later in the intermeeting period, some added reserve restraint would be acceptable, or some slight lessening of reserve pressure might be acceptable, depending on ongoing economic and financial developments. The contemplated reserve conditions were expected to be associated with growth in M2 and M3 at annual rates of 6 to 7 percent over the period from March to June. The members agreed that the intermeeting range for the federal funds rate should be raised by 1 percentage point to a range of 5 to 9 percent.

In accordance with the Committee's instructions, open market operations were directed toward a slight increase in the degree of reserve pressure starting in the latter part of May. In the two reserve maintenance periods ending June 15, adjustment plus seasonal borrowing rose to an average of $530 million. That average included a bulge over the Memorial Day holiday in late May. The implementation of firmer reserve conditions, interacting with market expectations of a tighter monetary policy and some seasonal pressures in the money market, contributed to an increase in the federal funds rate from about 7 percent at the time of the May meeting to around 7-3/8 to 7-1/2 percent by mid-June. Subsequently, a marginal further increase was sought in the degree of reserve restraint. This further adjustment in open market operations was made in the context of a flow of economic information that suggested a continuing risk of greater inflation and a directive that called for evaluating new economic data with a greater readiness to tighten than to ease. Adjustment plus seasonal borrowing averaged about

$520 million in the reserve maintenance period ending June 29. Federal funds traded mostly around 7-1/2 percent during this period but rose to around 8 percent late in the month with the approach of the quarterly statement date.

Most other short-term interest rates rose by 1/4 to 3/8 percentage point during the intermeeting period. In contrast, bond yields declined by about the same amount over the interval. Demands for long-term debt instruments appeared to be buoyed by improved prospects for the dollar and by signs that the economic expansion might be moderating toward a more sustainable pace in the context of perceptions that monetary policy was being tightened in a timely manner. Broad indexes of stock prices increased appreciably on balance over the period since mid-May.

Growth of M2 and M3 slowed substantially in May, and M1 was about unchanged. This weaker performance reflected mainly a runoff of tax-related balances. Based on partial data through midmonth, growth of the monetary aggregates appeared to have rebounded in June, though it remained below that registered earlier in the year as increases in market interest rates in recent months apparently began to damp demands for money. Expansion in total domestic nonfinancial debt thus far this year was estimated to have moderated somewhat from the pace in 1987.

The staff projection prepared for this meeting suggested that the economy would expand at a more moderate pace in the quarters immediately ahead. Growth in output would be held down by the effects of the drought on agricultural output, a decline in automobile

production, and a more restrained pace of nonfarm inventory accumulation than was thought to have occurred in recent months. Over the longer run, the course of the economy would depend to an important extent on developments in financial markets. To the degree that demands were strong, in a context of an anti-inflation monetary policy, this would show through in pressures in those markets tending to restrain domestic spending. The staff projection continued to anticipate a sluggish pace of consumer spending, substantially slower growth in business fixed investment, and subdued housing activity; it also assumed a mildly restrictive fiscal policy. As in earlier projections, improvement in the trade balance was expected to contribute substantially to continuing growth in overall economic activity. Prices and wages were expected to rise somewhat more rapidly in the quarters ahead because of the continuing effects of the dollar's depreciation on prices of non-oil imports and of reduced margins of unutilized production resources. Increases in food prices as a consequence of drought conditions were also expected to contribute to inflationary pressures over the quarters immediately ahead.

In the Committee's discussion of the economic situation and outlook, the members generally agreed that some moderation in the rate of economic expansion was a reasonable expectation for the next several quarters. Indeed, although the specific rate of economic growth that would foster achievement of the Committee's price stability goal could not be anticipated with any degree of precision, the members generally agreed that a considerably slower rate of expansion than appeared to have occurred in the first half of 1988 would probably be needed, given

already high utilization rates of labor and capital resources. Views differed, however, with regard to the likely extent of the slowing that might already be underway. Many members expressed concern that, in the absence of tighter fiscal and monetary policies, the momentum of the economy pointed to faster growth than would be consistent with the Committee's objective of containing inflationary pressures over time. Some other members gave more emphasis to recent data that seemed to point to more moderate economic growth. They noted that the higher interest and exchange rates and the slower monetary growth that had accompanied the tightening of monetary policy over the spring would be restraining demands over coming quarters, and they saw a lesser risk of a significant pickup in inflation. In the view of these members, inflation remained a major concern, but additional information was needed to assess whether the economy was on a course that would lead to an intensification of price pressures.

In keeping with the usual practice at meetings when the Committee considers its long-run objectives for monetary growth, the members of the Committee and the Federal Reserve Bank presidents not currently serving as members prepared specific projections of growth in real and nominal GNP, the rate of unemployment, and changes in the overall price level. With regard to rates of expansion in real GNP, the projections had a central tendency of 2-3/4 to 3 percent for 1988 as a whole, implying a considerable slowing over the second half of the year; for the year 1989 the central tendency of the projections was 2 to 2-1/2 percent or close to that implied for the second half of this year. Projections of growth in nominal GNP centered on rates of 5-3/4 to 6-3/4

percent for 1988 and 5 to 7 percent for 1989. The projected rates of civilian unemployment had a central tendency of 5-1/4 to 5-3/4 percent for the fourth quarter of 1988 and 5-1/2 to 6 percent for the fourth quarter of 1989. With respect to the rate of inflation, as indexed by the GNP deflator, the projections centered on rates of 3 to 3-3/4 percent for 1988 and 3 to 4-1/2 percent for 1989. The somewhat higher midpoint of the central tendency for 1989 overstated the anticipated pickup in inflation for technical reasons, including a shift in the composition of output that had produced an unusually low increase in the deflator for the first quarter of 1988. In making these projections the members took account of the Committee's objectives for monetary growth established at this meeting and assumed that the fiscal policy understandings reached by Congress and the Administration in late 1987 would be fully implemented. The members also assumed that fluctuations in the exchange value of the dollar would not be of sufficient magnitude to affect economic growth and inflation materially in the period through the end of 1989.

In their review of developments bearing on the prospects for the economy, the members generally agreed that the outlook for consumer and business spending pointed to slower growth in domestic final demands over the next several quarters, but they continued to anticipate that further improvement in the nation's trade balance would provide a major impetus to sustained moderate expansion in overall economic activity. There was uncertainty about strength of demands in the economy from both domestic and foreign sources. Some recent data on consumption and investment seemed to suggest that demands were moderating a bit in the

second quarter; moreover, the rise in interest rates would be damping domestic demands over coming quarters, and the higher dollar, if it persisted, could restrain the pace of external adjustment. In addition, money stock growth, taking 1987 and the first half of 1988 together, had been much less rapid than in previous years, and this suggested some restraint in the economy. On the other hand, the economy seemed to have a good deal of momentum and it was far from clear whether the slowing, if any, would be sufficient to relieve growing pressures on resources. Consumption seemed sluggish, but restrained consumer spending was needed to allow production resources to be shifted to sectors that competed in international markets. Reports from the Federal Reserve districts suggested that the improved international competitiveness of domestic producers continued to boost manufacturing activity and that capital spending to expand and modernize industry would likely continue fairly robust, if below the extraordinary pace of the first quarter. Economic activity abroad had been somewhat stronger than expected, and if that pattern continued it would tend to boost demands on U.S. exporters.

An important uncertainty in the economic outlook, at least in the view of some members, was the prospective performance of inventories. A somewhat reduced rate of inventory accumulation was desirable to prevent an excess buildup in relation to sales, but a surge in inventory investment could not be ruled out. Such a development would contribute to demand pressures and would threaten the sustainability of the expansion. Members also noted that the drought was having an adverse impact on agriculture in several parts of the country, but its ultimate effects on the economy were difficult to predict. A timely

improvement in moisture conditions might yet limit that impact for many producers. In areas unaffected by the drought, agricultural producers were benefitting from higher prices of agricultural commodities.

During the Committee's discussion, the members focused a great deal of attention on the outlook for prices and wages. Specific developments such as rising import prices and the impact of the drought on agricultural prices were contributing to inflationary pressures. However, of more fundamental concern to members was the possibility that aggregate demand pressures in the economy might prove excessive in relation to available labor and capital resources, especially given the high levels of resource utilization already prevailing. By some measures, prices had risen somewhat more rapidly in recent months, although any associated worsening of inflationary expectations, at least as reflected in certain key financial markets, appeared to have been muted, perhaps by favorable reactions to the System's tightening moves. With regard to wages, some members commented that recent wage data, on the whole, had an upward tilt. Reports from different parts of the country suggested that labor market conditions were relatively taut in many, but not all, areas, but there were few reports of substantial acceleration in rates of wage increases. Many business executives were expressing concern, however, about their continuing ability to restrain demands for higher wages. For the moment, priority in labor negotiations continued to be placed on job security issues, and many business executives, facing domestic and foreign competition, continued to emphasize measures to increase productivity and hold down unit labor costs.

Against the background of the Committee's views regarding the economic outlook and in keeping with the requirements of the Full Employment and Balanced Growth Act of 1978 (the Humphrey Hawkins Act), the Committee at this meeting reviewed the ranges for growth in the monetary and debt aggregates that it had established in February for 1988 and decided on tentative ranges for growth in those measures in 1989. The 1988 ranges included growth of 4 to 8 percent for both M2 and M3 for the period from the fourth quarter of 1987 to the fourth quarter of 1988. A monitoring range of 7 to 11 percent had been set for growth in total domestic nonfinancial debt in 1988. For the year to date, cumulative expansion of M2 and M3 had been in the upper portion of the ranges established by the Committee, while expansion in nonfinancial debt had been around the middle of its range. With regard to M1, the Committee had decided in February not to set a numerical target for 1988 but to appraise the behavior of this monetary measure in terms of its velocity and against the background of developments in the economy and financial markets and the nature of emerging price pressures.

In the Committee's review of the ranges that had been set for 1988, all of the members found acceptable a proposal to retain the current ranges. The Committee took account of a staff analysis which indicated that a moderation in the growth of M2 over the second half of 1988, bringing M2 expansion to around the middle of the Committee's range for the year, was consistent with the slower growth of income that was both expected and desirable. The slower M2 growth also would reflect the impact of the rise in market interest rates in recent months in association with an expectation that depository institutions

characteristically would not adjust offering rates fully on their interest-bearing deposits or would do so only after a considerable delay. Growth of M3 was projected to exceed that of M2 during the remainder of 1988, reflecting needs to finance fairly robust credit growth at depository institutions. Nonetheless, the growth of M3 was projected to remain well within the Committee's range for the year. Growth in total domestic nonfinancial debt was expected to remain near the middle of its range and thus still appreciably above the projected expansion in nominal GNP, in part because of a widened corporate financing gap.

With regard to the ranges in 1989, the members generally agreed that achievement of sustained economic expansion and concurrent progress toward price stability would require that the ranges continue to be ratcheted down over time. However, views differed as to how much, if any, of this reduction should be scheduled at this time for 1989--especially in light of the uncertainty at mid-1988 as to what economic and financial conditions would prevail in 1989. With deposit rate deregulation, the aggregates had become more interest sensitive, and it had become increasingly difficult to anticipate very far in advance what rates of monetary growth would be appropriate. Many members favored a reduction of a full percentage point in the M2 range. They viewed such a reduction as necessary to constrain income growth in a period when underlying inflation pressures could remain strong and velocity could be increasing. Most other members favored a smaller reduction, or no reduction, in the money growth ranges. Some anticipated that the expansion in business activity as 1989 began might well be slower than

most members currently anticipated. Interest rates might also be lower, thereby tending to damp velocity. Because of uncertainty about the outlook, there was a risk that a part, or all, of any current reductions might have to be reversed when the ranges were reexamined in February, with adverse effects in terms of the public's perception of the System's anti-inflation resolve. In the view of these members, the ranges could be adjusted downward in February, when the outlook for 1989 would be in clearer focus. On the other hand, one member felt that a reduction of more than one percentage point in the M2 range probably would be needed if progress was to be made in lowering the rate of inflation in 1989. Despite their differing preferences and in recognition of the possibility of revisions next February in these tentative ranges, all but one member indicated they could accept a reduction of a full percentage point in the M2 range. This would communicate the System's intention to restrain any tendency for inflation to accelerate next year and, indeed, to move over time toward price stability. In light of the uncertainties, the Committee decided to retain the four-point width for all the aggregates in 1989. Consideration would be given to narrowing the ranges to 3 percentage points when they were reviewed in February.

The tentative range for M3 was reduced by 1/2 percentage point and left somewhat higher than that for M2. Growth in M3 had shown a tendency to exceed M2 growth over time and that pattern was expected to continue. The range for M3 had been set above that for M2 in a number of earlier years. The monitoring range for expansion in total domestic nonfinancial debt also was lowered on a tentative basis by 1/2 percentage point from the range for 1988. In the economic environment

projected for 1989, growth in nonfinancial debt was believed likely to slow a bit from the already reduced pace now expected for all of 1988. Even so, with business loan demands expected to remain relatively strong, growth in nonfinancial debt would probably continue to exceed that of nominal GNP by a considerable margin.

The Committee again decided not to set a specific range for M1 for 1988 or 1989. The velocity of M1 had exhibited sharp swings in recent years. The latter were in part the result of the increased sensitivity of M1 to fluctuations in market interest rates since the deregulation of deposit rate ceilings. The Committee concluded that the prospective relationships between M1 and aggregate measures of economic performance remained too uncertain to justify reliance on this monetary aggregate as a guide for monetary policy, at least insofar as could be judged at this point for next year. Similarly, after Committee consideration most members preferred not to make use of another narrow monetary measure, the monetary base, in guiding monetary policy. In recent years, the base had varied less in relation to economic activity and prices than M1, but its velocity had nonetheless fluctuated substantially, and sometimes unpredictably, from year to year.

At the conclusion of this discussion, the Committee approved for inclusion in the domestic policy directive the following paragraphs relating to its objectives for the broader aggregates and nonfinancial debt in 1988 and the role of M1:

> The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability over time, promote growth in output on a sustainable basis, and contribute to an improved pattern of international transactions. In furtherance of these objectives, the Committee reaffirmed at

this meeting the ranges it had established in February for growth of 4 to 8 percent for both M2 and M3, measured from the fourth quarter of 1987 to the fourth quarter of 1988. The monitoring range for growth in total domestic nonfinancial debt was also maintained at 7 to 11 percent for the year.

With respect to M1, the Committee reaffirmed its decision in February not to establish a specific target for 1988 and also decided not to set a tentative range for 1989. The behavior of this aggregate will continue to be evaluated in the light of movements in its velocity, developments in the economy and financial markets, and the nature of emerging price pressures.

Votes for this action: Messrs. Greenspan, Corrigan, Angell, Black, Forrestal, Heller, Hoskins, Johnson, Kelley, Parry, and Ms. Seger. Votes against this action: None.

The following paragraph relating to the ranges for 1989 was approved for inclusion in the domestic policy directive:

For 1989, the Committee agreed on tentative ranges for monetary growth, measured from the fourth quarter of 1988 to the fourth quarter of 1989, of 3 to 7 percent for M2 and 3-1/2 to 7-1/2 percent for M3. The Committee set the associated monitoring range for growth in total domestic nonfinancial debt at 6-1/2 to 10-1/2 percent. It was understood that all these ranges were provisional and that they would be reviewed in early 1989 in the light of intervening developments.

Votes for this action: Messrs. Greenspan, Corrigan, Angell, Black, Forrestal, Heller, Hoskins, Johnson, Kelley, and Parry. Vote against this action: Ms. Seger.

Ms. Seger dissented because she preferred to retain--at least for now--this year's ranges of 4 to 8 percent for growth in both M2 and M3 for 1989. The economic outlook for next year remained highly uncertain at this point, and she was concerned about reducing the ranges so far in advance and incurring the risk of having to reverse that decision next February. Such a reversal would create unnecessary

uncertainty about the conduct of monetary policy. She recognized that further reductions in the M2 and M3 ranges might well be needed over time to bring inflation under control, and she would be prepared to lower those ranges early next year if economic conditions and prospects appeared to warrant such an action at that time.

In the course of the Committee's discussion of policy implementation for the period immediately ahead, considerable emphasis was given by some members to the desirability of avoiding any impression of a reversal in what was widely perceived as the thrust of policy in recent months toward a gradual increase in the degree of restraint. Several observed that the tightening actions of recent months had had a salutary effect on financial markets, and, as evidenced in part by the performance of the bond markets, on inflation expectations. The Committee did not contemplate any easing of policy in the current economic environment, and some members were concerned that maintaining the degree of reserve pressure sought recently might well be interpreted as a move to an easier policy once the effects of seasonal pressures on money market interest rates subsided. In present circumstances such a development could have an exaggerated effect on inflationary attitudes and thus on the effectiveness of monetary policy. A slight increase in reserve pressure would help to maintain the general thrust of policy and its perception by the markets; some further tightening could be assessed as new data, especially pertaining to inflation pressures, became available. Other members preferred a somewhat greater degree of firming immediately. They were concerned that there were substantial risks that the tightening actions to date might not be sufficient to limit the

expansion to a noninflationary pace, and some felt that an increase in the discount rate might helpfully complement open market operations at this juncture.

Some members favored steady reserve conditions. They gave more emphasis to the anticipated lagged effects of earlier policy tightening actions, and most of these members also interpreted recent information as indicative of some slowing in the business expansion. They also were concerned that any firming, however slight, would add to existing upward pressures on the dollar. The rise in the dollar already suggested monetary restraint in the United States, and further upward movements might work against needed adjustment of external imbalances. Some firming might well be needed at some point and should be reflected in a directive that indicated a greater willingness to tighten than to ease in response to new data. However, economic and monetary indicators in this view did not point to the need for any tightening at this time.

According to a staff analysis prepared for this meeting, the implementation of unchanged or slightly firmer reserve conditions was likely to be associated with some slowing in the growth of M1 and M2 during the months ahead, largely reflecting the impact on deposit growth of more attractive yields on short-term market instruments stemming from the recent rise in market rates. Growth in M3 might be better maintained as banks and thrift institutions continued to finance still sizable expansion in credit demands through issuance of managed liabilities. In these circumstances, cumulative growth in both M2 and M3 through September would be expected to remain in the upper halves of

the Committee's 1988 ranges, albeit with M2 declining toward the mid-point of its range.

With regard to possible changes in the degree of reserve pressure during the intermeeting period, all of the members agreed that operations should be adjusted more readily toward further tightening than toward some easing. However, those who preferred no change in the degree of reserve restraint, at least for now, also thought that the directive should incorporate such a presumption only if there were no immediate tightening. The relatively long span between meetings and the importance of the forthcoming data to an assessment of the evolving economic and price outlook, might well require consideration of intermeeting adjustments in the stance of open market operations in coming weeks. In addition, developments in financial markets, especially the foreign exchange market, could have an important effect on the timing of policy actions in the near term, and such developments would need to be reviewed carefully. The members generally endorsed a suggestion to give particular weight to incoming information bearing on the outlook for inflation during the intermeeting period, though the usual attention should also continue to be given to the strength of the economic expansion, conditions in domestic and foreign exchange markets, and the growth of the monetary aggregates.

At the conclusion of the Committee's discussion, a majority of the members indicated that they preferred or could accept a directive that called for a slight increase in the degree of pressure on reserve positions. The members indicated that somewhat greater reserve restraint would be acceptable, or slightly lesser reserve restraint

might be acceptable, depending on indications of inflationary pressures, the strength of the business expansion, developments in foreign exchange and domestic financial markets, and the behavior of the monetary aggregates. The reserve conditions contemplated by the Committee were expected to be consistent with growth in M2 and M3 at annual rates of about 5-1/2 and 7 percent, respectively, over the three-month period from June through September. In keeping with its decision on the longer-run ranges, the Committee decided not to indicate any expectations regarding the growth of M1 over the months immediately ahead. The members agreed that the intermeeting range for the federal funds rate, which provides one mechanism for initiating consultation of the Committee when its boundaries are persistently exceeded, should be left unchanged at 5 to 9 percent.

At the conclusion of the meeting the following domestic policy directive was issued to the Federal Reserve Bank of New York:

> The information reviewed at this meeting suggests that economic activity has continued to expand at a fairly vigorous pace. Growth in total nonfarm payroll employment moderated somewhat in April and May. The civilian unemployment rate rose to 5.6 percent in May, a level just below its average in the first quarter. Industrial production advanced considerably in April and May. Retail sales were little changed on balance over the two months after rising appreciably in the first quarter. Available data indicate that business capital spending has remained at the high level reached in the first quarter. Housing starts fell sharply in May, but other indicators suggested little change in the pace of recent housing activity. The nominal U.S. merchandise trade deficit declined substantially in April, as imports dropped sharply and exports were essentially unchanged. Most measures indicate that prices and wages have risen somewhat more rapidly in recent months. Prices of a broad range of commodities, particularly agricultural goods, have increased sharply in the past few weeks.

Short-term interest rates have risen since the Committee's meeting on May 17, while bond yields have moved lower. The trade-weighted foreign exchange value of the dollar in terms of the other G-10 currencies appreciated considerably over the intermeeting period.

Expansion of M2 and M3 slowed considerably in May and M1 was about unchanged, but data available for June suggested some pickup in monetary growth. From a fourth-quarter base, M2 and M3 have grown at rates in the upper portion of the ranges established by the Committee for 1988. Expansion in total domestic nonfinancial debt for the year thus far appears to be at a pace somewhat below that in 1987.

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability over time, promote growth in output on a sustainable basis, and contribute to an improved pattern of international transactions. In furtherance of these objectives, the Committee reaffirmed at this meeting the ranges it had established in February for growth of 4 to 8 percent for both M2 and M3, measured from the fourth quarter of 1987 to the fourth quarter of 1988. The monitoring range for growth in total domestic nonfinancial debt was also maintained at 7 to 11 percent for the year.

For 1989, the Committee agreed on tentative ranges for monetary growth, measured from the fourth quarter of 1988 to the fourth quarter of 1989, of 3 to 7 percent for M2 and 3-1/2 to 7-1/2 percent for M3. The Committee set the associated monitoring range for growth in total domestic nonfinancial debt at 6-1/2 to 10-1/2 percent. It was understood that all these ranges were provisional and that they would be reviewed in early 1989 in the light of intervening developments.

With respect to M1, the Committee reaffirmed its decision in February not to establish a specific target for 1988 and also decided not to set a tentative range for 1989. The behavior of this aggregate will continue to be evaluated in the light of movements in its velocity, developments in the economy and financial markets, and the nature of emerging price pressures.

In the implementation of policy for the immediate future, the Committee seeks to increase slightly the existing degree of pressure on reserve positions.

> Taking account of indications of inflationary pressures, the strength of the business expansion, developments in foreign exchange and domestic financial markets, and the behavior of the monetary aggregates, somewhat greater reserve restraint would, or slightly lesser reserve restraint might, be acceptable in the intermeeting period. The contemplated reserve conditions are expected to be consistent with growth in M2 and M3 over the period from June through September at annual rates of about 5-1/2 and 7 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 5 to 9 percent.
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> Votes for the paragraph on short-term policy implementation: Messrs. Greenspan, Corrigan, Black, Forrestal, Heller, Hoskins, Johnson, and Parry. Votes against: Messrs. Angell, Kelley, and Ms. Seger.

Messrs. Angell and Kelley and Ms. Seger dissented because they preferred to direct policy toward maintaining unchanged conditions of reserve availability. They did not rule out the possible need for some firming later during the intermeeting period, subject to a review of developments by the Committee.

Mr. Angell indicated that he supported a continued slowing in the growth of the monetary aggregates that was directed toward price level stability over time. In his view, while longer-run developments in prices remained somewhat uncertain, recent information from exchange rate and commodity markets, as well as the monetary aggregates, called for a pause in the process of continuous tightening in order to gain additional insight regarding the effects of previous actions. In addition, the dollar had been under substantial upward pressure, which had prompted central bank intervention. He felt that the exchange rate objectives implied in dollar sales would be frustrated by the double

sterilization of reserves implied by monetary tightening. He wanted to call attention to the cross purposes of these actions.

Mr. Kelley noted that he had supported firming actions over the past several months, but he could not concur with a decision to increase reserve pressure further at this time. The economy, for the most part, was behaving satisfactorily, with evidence that the rate of growth in real activity might be decelerating. He recognized and shared the concern that inflation had the potential to accelerate. However, there was insufficient evidence at this time to justify further tightening that might foster undue slowing in economic growth. He would be prepared to support appropriate firming action later should adequate evidence of increased inflationary pressures emerge, taking into account overall economic activity.

Ms. Seger emphasized that some current business indicators already pointed to a slower economic expansion. Moreover, the full impact of the firming of policy in recent months had not yet materialized. In the circumstances and also taking into account the strength of the dollar and the absence of broad indications of significant acceleration in the rate of inflation, she believed that a further increase in the degree of reserve restraint represented an unwarranted risk at this time to satisfactory economic performance.