

Meeting of the Federal Open Market Committee

February 9-10, 1988

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., starting on Tuesday, February 9, 1988, at 3:00 p.m., and continuing on Wednesday, February 10, 1988, at 9:00 a.m.

PRESENT: Mr. Greenspan, Chairman
Mr. Corrigan, Vice Chairman
Mr. Angell
Mr. Boehne
Mr. Boykin
Mr. Heller
Mr. Johnson
Mr. Keehn
Mr. Kelley
Ms. Seger
Mr. Stern

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

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

Mr. Kohn, Secretary and Staff Adviser
Mr. Bernard, Assistant Secretary
Mrs. Loney, Deputy Assistant Secretary
Mr. Bradfield, General Counsel
Mr. Patrikis,¹ Deputy General Counsel
Mr. Truman, Economist (International)

Messrs. Lang, Lindsey, Prell, Rolnick, Rosenblum, Scheld, Siegman, and Simpson, Associate Economists

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

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

1/ Attended Wednesday session only.

Mr. Coyne, Assistant to the Board, Board of Governors
Mr. Promisel, Senior Associate Director, Division of
International Finance, Board of Governors
Mr. Slifman, Associate Director, Division of Research
and Statistics, Board of Governors
Mr. Gillum,¹ Economist, Division of Monetary Affairs
Board of Governors
Mr. Wascher,¹ Economist, Division of Research and
Statistics, Board of Governors
Ms. Low, Open Market Secretariat Assistant, Division of
Monetary Affairs, Board of Governors

Messrs. Balbach, Beebe, Broaddus, J. Davis, R. Davis,
and Ms. Tschinkel, Senior Vice Presidents,
Federal Reserve Banks of St. Louis, San Francisco,
Richmond, Cleveland, New York, and Atlanta,
respectively

Messrs. McNees and Cacy, Vice Presidents, Federal Reserve
Banks of Boston and Kansas City, respectively

Mr. Vangel, Assistant Vice President, Federal Reserve
Bank of New York

By unanimous vote, the minutes of actions taken at the meeting
of the Federal Open Market Committee held on December 15-16, 1987, and
January 5, 1988, were approved.

Secretary's Note: The following actions were taken at the
Wednesday session.

By unanimous vote, System open market transactions in foreign
currencies during the period December 16, 1987, through February 9, 1988,
were ratified.

By unanimous vote, System open market transactions in government
securities and federal agency obligations during the period December 16, 1987,
through February 9, 1988, were ratified.

^{1/} Attended portion of meeting relating to the Committee's discussion
and action on monetary growth ranges for 1988.

By unanimous vote, the following longer-run policy for 1988 was approved by the Committee:

The Federal Open Market Committee seeks monetary and financial conditions that will foster reasonable 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 at this meeting established growth ranges 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 non-financial debt was set at 7 to 11 percent for the year.

With respect to M1, the Committee again decided not to establish a specific target for 1988. The behavior of this aggregate in relation to economic activity and prices has become very sensitive to changes in interest rates, among other factors, as evidenced by sharp swings in its velocity in recent years. Consequently, the appropriateness of changes in M1 this year will continue to be evaluated in the light of the behavior of its velocity, developments in the economy and financial markets, and the nature of emerging price pressures.

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 indicated that economic activity continued to expand rapidly in the fourth quarter but that the advance reflected a build-up in inventories as domestic final demands weakened. The growth in output appeared to have slowed around year-end. Total nonfarm payroll employment rose much less in January than on average over the previous three months; the manufacturing sector also recorded reduced employment growth in January. The civilian unemployment rate, at 5.8 percent in January, was unchanged from December. Growth in industrial production moderated further in December. Retail sales picked up in December, buoyed by improved auto sales, but remained below levels reached during the summer. Indicators of business capital spending were mixed late in the year. Housing starts fell markedly in December, and were down somewhat on balance in the fourth quarter from the

average pace in the second and third quarters. The nominal U.S. merchandise trade deficit declined substantially in November. For October and November combined, the deficit rose slightly from the average rate in the third quarter, but in real terms the deficit was estimated to have narrowed further. The rise in consumer prices slowed and producer prices fell in late 1987, reflecting declines in energy prices; wage trends have shown little change in recent months.

Most interest rates were down substantially on balance since the Committee's meeting in mid-December. In the Treasury securities market, long-term yields fell considerably more than short-term rates. Broad indexes of stock prices rose somewhat on balance over the intermeeting period in still relatively volatile trading. The trade-weighted foreign exchange value of the dollar in terms of the other G-10 currencies declined further in the second half of December but recovered after the turn of the year and has increased moderately on balance since the December meeting.

Growth of M2 and M3 strengthened substantially in January after slowing over November and December. For 1987 as a whole, expansion of M2 fell considerably below the lower end of the range established by the Committee for the year, while growth of M3 was at the lower end of its range. Growth of M1 surged in January following two months of declines. For the year 1987, M1 growth was marginally below that of nominal GNP, and expansion in total domestic nonfinancial debt was at the midpoint of the Committee's monitoring range for the year.

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In the implementation of policy for the immediate future, the Committee seeks to maintain the slightly reduced degree of pressure on reserve positions sought in recent days. The Committee agrees that the current more normal approach to open market operations remains appropriate; still sensitive conditions in financial markets and uncertainties in the economic outlook may continue to call for some flexibility in operations. Taking account of conditions in financial markets, somewhat lesser reserve restraint or somewhat greater reserve restraint would be acceptable depending on the strength of the business expansion, indications of inflationary pressures, developments in foreign exchange markets, as well as the behavior of the monetary aggregates. The contemplated reserve conditions are expected to be consistent with growth in both M2 and M3 over the period from November through March at annual rates of about 6 to 7 percent. 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 4 to 8 percent.

It was agreed that the next meeting of the Committee would be held on March 29, 1988.

The meeting adjourned.

Secretary