

Meeting of the Federal Open Market Committee

February 7-8, 1989

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, February 7, 1989, at 3:00 p.m. and continuing on Wednesday, February 8, 1989, at 9:30 a.m.

PRESENT: Mr. Greenspan, Chairman
Mr. Corrigan, Vice Chairman
Mr. Angell
Mr. Black
Mr. Forrestal
Mr. Heller
Mr. Hoskins
Mr. Johnson
Mr. Kelley
Mr. LaWare
Mr. Parry
Ms. Seger

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

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

Mr. Kohn, Secretary and Economist
Mr. Bernard, Assistant Secretary
Mr. Patrikis,¹ Deputy General Counsel
Mr. Prell, Economist
Mr. Truman, Economist

Messrs. Beebe, Broaddus, J. Davis, R. Davis,
Lindsey, Siegman, Simpson, 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

1. Attended Wednesday session only.

Mr. Coyne, Assistant to the Board, Board of Governors
Mr. Ettin, Deputy Director, Division of Research and
Statistics, Board of Governors
Mr. Promisel, Senior Associate Director, Division of
International Finance, Board of Governors
Messrs. Hooper,² Madigan,³ and Stockton, Assistant
Directors, Divisions of International Finance, Monetary
Affairs, and Research and Statistics, respectively,
Board of Governors
Messrs. Brayton,² Duca,³ and Rosine,³ Economists, Divisions of
Research and Statistics, Monetary Affairs, and Research
and Statistics, respectively, Board of Governors
Mr. Keleher, Assistant to Governor Johnson, Office of
Board Members, Board of Governors
Mr. Wajid, Assistant to Governor Heller, Office of
Board Members, Board of Governors
Mr. Gillum, Economist, Open Market Secretariat, Division
of Monetary Affairs, Board of Governors
Ms. Low, Open Market Secretariat Assistant, Division of
Monetary Affairs, Board of Governors

Messrs. T. Davis, Lang, Rolnick, Rosenblum, and Scheld,
Senior Vice Presidents, Federal Reserve Banks of
Kansas City, Philadelphia, Minneapolis, Dallas,
and Chicago, respectively

Messrs. Burger and McNeese, Vice Presidents,
Federal Reserve Banks of St. Louis and Boston,
respectively

Ms. Krieger, Manager, Open Market Operations,
Federal Reserve Bank of New York

Secretary's Note: Prior to this meeting, notice
had been received of the election of Richard F. Syron
as an alternate member of the Federal Open Market
Committee for the period January 1, 1989 through
February 28, 1989, and Mr. Syron 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 December 13-14, 1988, were
approved.

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2. Attended portion of meeting relating to the Committee's discussion
of the economic outlook.
 3. Attended portion of meeting relating to the Committee's discussion
of the economic outlook and its longer-run objectives for monetary
and debt aggregates.

By unanimous vote, System open market transactions in foreign currencies during the period December 14, 1988, through February 7, 1989, were ratified.

By unanimous vote, System open market transactions in government securities and federal agency obligations during the period December 14, 1988, through February 7, 1989, were ratified.

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

With Mr. Hoskins dissenting, the following longer-run policy for 1989 was approved by the Committee:

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 this meeting reaffirmed its decision of late June to lower the ranges for growth of M2 and M3 to 3 to 7 percent and 3-1/2 to 7-1/2 percent, respectively, measured from the fourth quarter of 1988 to the fourth quarter of 1989. The monitoring range for growth of total domestic nonfinancial debt was set at 6-1/2 to 10-1/2 percent for the year. The behavior of the monetary aggregates will continue to be evaluated in the light of movements in their velocities, developments in the economy and financial markets, and progress toward price level stability.

With Messrs. Hoskins and Parry dissenting from the operational paragraph on policy implementation in the period immediately ahead, 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, apart from the direct effects of the drought, economic activity has continued to expand at a fairly vigorous pace. After strong gains in the fourth quarter, total nonfarm payroll employment rose sharply

in January, including a sizable increase in manufacturing. The civilian unemployment rate, at 5.4 percent in January, remained in the lower part of the range that has prevailed since the early spring of last year. Industrial production rose appreciably further in December and January. Housing starts declined somewhat in December but were up substantially on balance in the fourth quarter. Consumer spending advanced considerably in the fourth quarter, in part reflecting stronger sales of durable goods. Indicators of business capital spending suggest some weakening in recent months. The nominal U.S. merchandise trade deficit was slightly larger on average in October and November than in the third quarter. The latest information on prices suggests little change from recent trends, while wages have tended to accelerate.

The federal funds rate and Treasury bill rates have risen since the Committee meeting in mid-December; other short-term interest rates are generally unchanged to somewhat lower. Bond yields have declined somewhat. In foreign exchange markets, the trade-weighted value of the dollar in terms of the other G-10 currencies rose substantially over the intermeeting period.

M2 and M3 weakened appreciably in January, especially M2. For the year 1988, M2 expanded at a rate a little below, and M3 at a rate around, the midpoint of the ranges established by the Committee. M1 has changed little on balance over the past several months; it grew about 4-1/4 percent in 1988. Expansion of total domestic nonfinancial debt appears to have moderated somewhat in 1988 to a pace around 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 existing degree of pressure on reserve positions. Taking account of indications of inflationary pressures, the strength of the business expansion, the behavior of the monetary aggregates, and developments in foreign exchange and domestic financial markets, 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 of M2 and M3 over the period from December through March at annual rates of about 2 and 3-1/2 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 7 to 11 percent.

It was agreed that the next meeting of the Committee would be held on Tuesday March 28, 1989.

The meeting adjourned.

Secretary