

FEDERAL RESERVE press release



For Use at 4:30 p.m.

April 3, 1992

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 February 4-5, 1992.

The record for each meeting of the Committee is made available a few days after the next regularly scheduled meeting and subsequently is published in the Federal Reserve Bulletin and the Board's Annual Report. The summary description of economic and financial conditions contained in each record is 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 February 4-5, 1992

1. Domestic Policy Directive

The information reviewed at this meeting suggested that economic activity remained sluggish. Spending for housing and exports was rising, but retail sales had been weak, and nonresidential construction continued to hold down overall investment expenditures. Nonfarm payroll employment had changed little in December, and industrial production had edged lower in November and December as business firms acted to hold down inventories in the face of slack final demand. Wage and price increases continued to trend downward.

Total nonfarm payroll employment was about unchanged in December after a large decline in November. Manufacturing jobs fell in December for a fourth consecutive month, with nearly all of the losses occurring in durable goods industries. Employment in retail and wholesale trade contracted again, while employment in construction, which had been depressed by unseasonably severe weather in November, registered a small rise. New hires in December were concentrated in health services and local governments. The civilian unemployment rate rose to 7.1 percent in December, its high for the year.

Industrial production declined slightly in December and was unchanged on balance since July; the limited information available suggested that production might have contracted appreciably further in January. Over the November-December period, output was held down in part by reduced production of motor vehicles; in addition, unseasonably warm weather led to lower production of electricity and natural gas. Additional restraints on output included the depressing effects of a strike at a major supplier of industrial equipment and persisting

declines in the production of defense and space equipment. By contrast, the output of other types of business equipment had strengthened, particularly in the office and computing component, and the production of construction supplies and a variety of nondurable goods had increased. Total industrial capacity utilization declined further in December but remained somewhat above its low of last March.

Consumer spending had been weak on balance in recent months amid continuing indications of depressed consumer confidence and essentially no growth in disposable income. Nominal retail sales were estimated to have declined appreciably in November and December, and for the fourth quarter decreases in sales were widespread among general merchandise, apparel, and furniture and appliance stores. Against a background of improved consumer attitudes toward homebuying and the strongest quarterly pace of new home sales since the spring of 1990, single-family housing starts rose in December from an upward-revised November level. With high vacancy rates persisting for multi-family units, starts of such units remained near their May 1991 low.

Business fixed investment appeared to have fallen in the fourth quarter as a small rise in equipment spending was offset by further steep reductions in nonresidential construction. After little change in the third quarter, shipments of nondefense capital goods picked up in the fourth quarter, principally because of a surge in outlays for computers. Recent data on orders suggested little growth in business spending for equipment over the near term. Office and other commercial construction activity weakened substantially further in November. The persistently low occupancy rates for commercial structures, and the continuing downtrend in construction contracts and appraisal values of office properties suggested that nonresidential construction activity would remain depressed for some time.

Business inventories rose noticeably over the months of September through November after substantial liquidation earlier in the year. At the retail level, inventories continued to build, and inventory-to-sales ratios rose for most types of retailers, although the pace of accumulation appeared to have slowed in November. Wholesale inventories expanded sharply in October and November; for most types of distributors, inventory-to-sales ratios had moved up in recent months but had remained well below their highs of a year ago. By contrast, manufacturing stocks in the aggregate continued to decline, despite slowing shipments that led to buildups in stocks of finished goods in some industries. The ratio of stocks to sales in manufacturing remained on a downtrend that began in late 1990.

The nominal U.S. merchandise trade deficit narrowed considerably in November. For the October-November period, a sizable rise in exports that was only partly offset by an increase in imports brought a substantial improvement in the trade balance from the third-quarter rate. The strength in exports, which may have been associated in part with a bunching of shipments, was concentrated in aircraft, machinery, consumer goods, and agricultural products. Among imports, most of the rise was in consumer goods. The available data on economic activity in the major foreign industrial countries suggested that relatively weak growth had continued into the fourth quarter. In most of these countries, with output moving closer to or further below potential, inflationary pressures appeared to have eased somewhat further.

Producer prices of finished goods declined in December; prices of food and energy moved lower, while prices of other finished goods rose at about the reduced pace of earlier months in the year. At the consumer level, prices of nonfood, non-energy items increased

in December at the moderate rate evident since the first quarter of 1991 and well below the pace for 1990. Average hourly earnings rose more rapidly in December than in prior months; however, for the year as a whole, this earnings measure increased at a considerably slower pace than in 1990.

At its meeting on December 17, 1991, the Committee adopted a directive that called for initially maintaining the existing degree of pressure on reserve positions but that included a marked bias toward easing during the intermeeting period. Accordingly, the directive indicated that in the context of the Committee's long-run objectives for price stability and sustainable economic growth, and giving careful consideration to economic, financial, and monetary developments, slightly greater reserve restraint might be acceptable or somewhat lesser reserve restraint would be acceptable in the intermeeting period. The reserve conditions contemplated under this directive were expected to be consistent with growth of M2 and M3 at annual rates of around 3 percent and 1-1/2 percent respectively over the period from November through March.

Shortly after the meeting, with incoming information continuing to point to a very sluggish economy, receding inflationary pressures, and slow growth in the broader monetary aggregates, open market operations were directed toward a substantial easing of conditions in reserve markets. This step was taken in conjunction with a reduction in the discount rate from 4-1/2 to 3-1/2 percent that was approved by the Board of Governors effective December 20. Two technical reductions were made to expected levels of adjustment plus seasonal borrowing during the intermeeting period to reflect the downward drift in seasonal borrowing in early winter. Adjustment plus seasonal borrowing averaged a little above expected levels over most

of the intermeeting interval, although very large adjustment borrowing occurred on the settlement day of one reserve maintenance period as a result of a reserve shortfall. At the beginning of the intermeeting period, the federal funds rate averaged around 4-1/2 percent; after the easing of reserve conditions, the funds rate dipped to a little below 4-1/4 percent through the first week of the new year and then dropped further to around 4 percent as relatively mild year-end pressures abated.

In response to the easing in reserve markets, other short-term interest rates declined by about the same amount as the federal funds rate, while longer-term rates fell by somewhat less. Rates on intermediate- and long-term securities continued to decline through the early part of 1992 as incoming data seemed to indicate further economic weakness. However, these rates began to firm again by mid-January; over the latter part of the intermeeting period, concerns mounted with regard to current and prospective supplies of federal debt offerings, especially in the context of proposals for fiscal stimulus, and market participants reacted to evidence that tended to suggest an improved economic outlook and consequently a reduced prospect of further monetary easing. For the intermeeting period as a whole, interest rates on intermediate-term Treasury issues were up somewhat, while rates on long-term Treasury and private instruments registered mixed changes. Following the one percentage point drop in the discount rate, the prime rate was reduced by the same amount, to 6-1/2 percent. Broad stock price indexes rose substantially.

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. The dollar declined early in the period, particularly against the German mark, in response

to the easing of monetary policy in the United States and the nearly concurrent rise in official German lending rates. In January, though, the dollar rebounded sharply amid market speculation that interest rates in the United States might not decline further and that interest rates in Germany might have peaked. On balance, the dollar weakened appreciably against the Japanese yen over the intermeeting period in response to concerns about trade imbalances between the two countries and to official intervention during the period in support of the yen.

After accelerating somewhat in the fourth quarter from a very weak performance earlier, growth of M2 and M3 appeared to have slowed in January, partly reflecting temporary distortions in demand deposits and money market funds around year-end. The slower growth also seemed to reflect the attraction of relatively high bond yields and persistently rising prices in the stock market at a time when many banking institutions were aggressively reducing offering rates on deposits. For the year 1991, the expansion of both M2 and M3 was estimated to have been at rates a little above the lower ends of the Committee's ranges, while growth of total domestic nonfinancial debt appeared to have been marginally above the lower end of its monitoring range.

The staff projection prepared for this meeting pointed to a recovery in economic activity. In the near term, a small overhang of inventories and depressed confidence would tend to limit overall increases in spending despite indications of a substantial pickup in residential construction, notably of single-family homes. Subsequently, though, the cumulative effects of earlier declines in interest rates would be expected to lead to a moderate pickup in growth, with the risks to that trajectory for the economy being viewed as about in balance. Stronger consumer spending, a rise in business

equipment investment, and a swing from liquidation to accumulation of inventories were projected to provide most of the impetus for faster growth. The retarding effects of depressed nonresidential construction activity and of the ongoing restructuring of household and business balance sheets were expected to lessen gradually as the expansion progressed. The potential nature and size of any stimulative fiscal package remained highly uncertain, and the staff projection did not incorporate major new fiscal initiatives. The substantial though diminishing slack expected in labor and product markets in coming quarters was projected to induce further declines in the underlying rate of inflation.

In their discussion of the economic situation and outlook, Committee members continued to view some strengthening in aggregate demand and overall business activity as the most likely prospect during the months ahead, with the expansion settling into a pattern of moderate growth by the second half of the year. The available information suggested that the sluggish performance of the economy was continuing in early 1992, though there were indications, still very tentative and largely anecdotal, of some improvement. Nonetheless, the decline in interest rates over the second half of 1991 accompanied by the appreciable progress achieved by many financial institutions, business firms, and households in improving their balance sheets appeared to have established a basis for a pickup in final demand. The timing and strength of an upturn remained subject to substantial uncertainties, and the need for further policy stimulus to foster a satisfactory economic expansion could not be ruled out. The uncertainties arose in part from the largely unpredictable course of fiscal policy, the still depressed state of business and consumer confidence, the strength and effects of continuing efforts to shore up balance

sheets, and the extent to which economic growth might slow abroad. With regard to the outlook for inflation, the available data and anecdotal information about recent increases in costs and prices reflected quite promising developments, and the members continued to anticipate appreciable progress toward a lower core rate of inflation.

In keeping with the practice at meetings when the Committee establishes its long-run ranges for growth of the money and debt aggregates, the Committee members and Federal Reserve Bank presidents not currently serving as members had prepared projections of economic activity, the rate of unemployment, and inflation for the year 1992. Measured from the fourth quarter of 1991 to the fourth quarter of 1992, the forecasts for growth of real GDP had a central tendency of 1-3/4 to 2-1/2 percent. Projections of the civilian rate of unemployment in the fourth quarter of 1992 were concentrated in a range of 6-3/4 to 7 percent. These forecasts pointed to rates of resource utilization that seemed consistent with appreciable progress toward price stability. Projections of the increase in the CPI from the fourth quarter of 1991 to the fourth quarter of 1992 were centered in a range of 3 to 3-1/2 percent; this range compared with a realized increase in the CPI of 3 percent in 1991, but the result for 1991 had been heavily influenced by the sharp decline in oil prices, so the members' forecasts represented a significant decrease in the underlying rate of inflation. Forecasts of growth of nominal GDP had a central tendency of 4-1/2 to 5-3/4 percent for 1992.

The members acknowledged that there were substantial risks of an outcome outside the central tendency of their forecasts for economic activity. Views differed with regard to the most likely direction of any deviation, but many of the members saw those risks as being in better balance than previously. Among the uncertainties in

the outlook was the extent to which financial intermediaries would continue to restrict their extensions of credit to less than prime borrowers. In this connection, a number of members reported on anecdotal indications that banking institutions in various parts of the country appeared to have become somewhat more willing lenders, even though overall survey results and many banker comments did not indicate any easing in credit standards. A second source of uncertainty related to the continuing efforts of business firms and households to strengthen their balance sheets and in the process to divert some of their corporate cash flows or disposable personal incomes from spending to reducing debt and improving equity positions. These efforts together with lower market interest rates already appeared to have induced significant progress toward reducing debt exposures and debt servicing costs, but the financial restructuring process was still under way and the extent to which it would continue to inhibit spending remained unclear. A further source of uncertainty related to the ongoing and widespread adjustments in corporate business structures, including downsizings, that were aimed at improving the competitive efficiency of business firms. While these restructuring activities were serving to strengthen the long-run competitive position of the economy, they tended for the present to inhibit overall spending, both directly and indirectly through the adverse effects of widely publicized job cutbacks on consumer sentiment.

Many of the members observed that fiscal policy developments were adding to the uncertainties in the economic outlook. At the moment, the potential outcome of fiscal initiatives by the Administration and the Congress was unknown. In the view of at least some members, a limited package of short-term fiscal stimulus measures

implemented relatively early this year could have a favorable effect on business activity. On the other hand, adoption of fiscal measures involving substantial stimulus, which would further impede the prospects for long-term budgetary balance, would be likely to have strongly adverse repercussions on financial markets and perhaps on business and consumer confidence. Indeed, concerns about the outlook for fiscal policy might well have been an important factor behind the rise in long-term bond yields this year. It also was noted that uncertainty about the exact provisions of the fiscal program that might eventually be adopted was causing some businesses to defer investment decisions.

In their review of business conditions in different parts of the country, members again reported on mixed patterns of activity in recent months, and they described overall conditions in the different regions as ranging from slightly weaker to slightly stronger. Although an expected upturn in general business activity had not materialized thus far, many members sensed some improvement in business attitudes. Notwithstanding the persistence of gloomy consumer sentiment, contacts among retailers indicated that many had experienced somewhat better sales in recent weeks than they had anticipated earlier, though reports from some parts of the country pointed to significant exceptions. Members commented that the pickup in sales of single-family homes together with reduced interest burdens stemming from home mortgage refinancings would tend to stimulate consumer spending in the quarters ahead. Over the near term, production activity was likely to be inhibited to some degree by the moderate buildup that had occurred late in 1991 in wholesale and retail inventories. As the year progressed, however, a pickup in consumer spending probably would encourage some increase in inventory

investment. Likewise, cautious business attitudes along with excess capacity in several key industries and the ongoing efforts to improve balance sheets would limit the growth in business spending for plant and equipment for some period of time, probably until an upturn in final demand was well under way. The prospects for commercial construction activity remained severely constrained by high vacancy rates in many parts of the country. On the foreign side, the outlook for relatively sluggish economic growth in several key industrial nations implied more limited growth in U.S. exports; in addition, if sentiment favoring more protectionism were to gather added strength in the context of a weak domestic economy, new trade restrictions might be imposed that would have adverse effects.

With regard to the prospects for inflation, members observed that core inflation was continuing to recede, and in the context of their outlook for relatively limited pressures on production resources, some commented that they would not view an inflation result below the central tendency of the members' projections as a surprising outcome. Developments having favorable implications for inflation included an extended period of subdued monetary growth, highly competitive conditions in domestic and international markets for numerous products, and productivity gains associated with business restructuring activities that were adding to the usual operating efficiencies achieved during the early quarters of cyclical upswings. The members did not rule out the possibility that unanticipated surges in energy or food prices might temporarily arrest or reverse progress toward price stability, but they assumed that such prices would move in line with most other prices in the year ahead.

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 of the monetary and debt aggregates in 1992 that it had established on a tentative basis in July 1991. The tentative ranges included expansion of 2-1/2 to 6-1/2 percent for M2 and 1 to 5 percent for M3, measured from the fourth quarter of 1991 to the fourth quarter of 1992. The monitoring range for growth of total domestic nonfinancial debt had been set provisionally at 4-1/2 to 8-1/2 percent for 1992. All of these ranges were unchanged from those for 1991 that the Committee had set in February and reaffirmed in July of last year.

In the Committee's discussion, a majority of the members indicated a preference for affirming the ranges for 1992 that had been established on a tentative basis in July. While those ranges were acceptable to all the members, several expressed a preference for lowering them.

In formulating the Committee's objectives for 1992, members stressed that policy needed to promote sustainable expansion in economic activity while consolidating and extending gains against inflation. Both objectives were attainable, especially in light of the degree of slack in the economy. However, the translation of these objectives into specific money growth ranges was complicated by questions about the relation of the monetary aggregates to spending. Since 1989, the level of M2 had fallen increasingly short of levels that past historical relationships with nominal GDP and market interest rates would have indicated. Insofar as could be judged at this point, retention of a 2-1/2 to 6-1/2 percent range for M2 should provide adequate leeway and operational flexibility to accommodate a satisfactory economic performance. Demand for M2 balances relative to income would continue to be damped if, as appeared likely, banks and thrifts were to reduce further their offering rates on deposits in

lagged response to earlier declines in market rates. The reductions in offering rates could be pronounced if banking institutions maintained their cautious lending policies and many prime borrowers continued to channel a larger-than-usual share of their financing needs toward longer-term market sources of funds and away from depository institutions. Under those circumstances, velocity could well rise appreciably and relatively modest M2 growth would not necessarily be inconsistent with a satisfactory economic expansion. On the other hand, the continuing improvement in the balance sheets and capital positions of depository institutions might prompt them as a group to become more willing lenders and thus to bid more aggressively for deposits to fund additional lending. In this case faster growth of M2, perhaps toward the upper end of the tentative range, might be desirable. On balance, the members believed that adoption of the tentative M2 range for 1992 should allow sufficient room for the likely range of developments in the intermediation process. Nonetheless, the substantial uncertainties surrounding the outlook for M2 suggested that the Committee would have to approach monetary developments with a great deal of flexibility over the year ahead.

An unchanged target range for M3 also was seen as likely to provide adequate room for a desirable rate of growth in this aggregate in the context of accommodating the Committee's broad policy objectives. The growth of M3 probably would continue to be affected to a greater extent than that of M2 by the diversion of credit demands to sources outside depository institutions and by the ongoing contraction of the thrift industry in conjunction with the activities of the Resolution Trust Corporation. Accordingly, a lower range for M3 than for M2 appeared to remain appropriate. Retention of an

unchanged monitoring range for growth in nonfinancial debt also seemed warranted for 1992, even though the expansion in such debt was likely to accelerate somewhat from a very sluggish pace in 1991, mainly as a result of more rapid growth in the federal debt. Non-federal debt also might increase a little faster this year, but the pickup was likely to be limited by the still cautious attitudes of households and businesses toward new debt. Thus, the 1991 range for nonfinancial debt should comfortably encompass an expansion of credit to support stronger spending in 1992.

Members who preferred a lower range for M2 believed that a reduction was desirable at this time to underscore the Committee's commitment to its long-run objective of price stability. While the unchanged range supported by the majority might provide the flexibility needed for a desirable anti-inflationary policy in the year ahead, a lower range would be more consistent with the Committee's ultimate objective of price level stability. However, in the view of other members a reduction at this time could be interpreted as an indication that the Committee might not be willing to supply enough liquidity to foster an appreciable strengthening in the economy in 1992, especially if a fairly rapid increase in M2 were needed to compensate for relatively slow money growth in 1991. No member advocated higher monetary growth ranges, but a number suggested that the emergence of more normal patterns of monetary velocity in association with an economic performance in line with the central tendency of the members' projections might appropriately result in M2 growth in the upper half of the Committee's range.

Concerns about the implications of slow money growth in 1991 and the possibility of more normal velocity patterns in 1992 prompted some members to suggest a modification of the current procedure for

constructing yearly monetary growth ranges. The modification would involve linking the ranges for the current year to those for the previous year rather than to the actual outcomes for that year. The new approach would place monetary targeting in a multi-year context with the objective of constraining money growth to a desired range over a longer horizon. Such an approach would have advantages over current procedures if the relationship between money growth and spending could be predicted with confidence. In the course of the Committee's discussion, however, a number of members referred to questions that had arisen about that relationship in recent years as thrift institutions were closed and credit flows increasingly bypassed depository institutions. A satisfactory performance of the economy in 1992 might well be accompanied by a rise in velocity, although there was considerable uncertainty about such an outcome. Should velocity in fact rise, the acceleration of the broader aggregates implied by this alternative approach and the associated easing of reserve conditions and short-term interest rates might not be consistent with the Committee's objectives. Given the uncertainties about velocity, a broad array of indicators, in addition to money, would need to continue to be assessed in determining the appropriate stance of the Committee in providing reserves. Members concluded that the proposal should be studied further and reconsidered later in light of changing circumstances.

At the conclusion of the Committee's discussion, all of the members indicated that they favored or could accept the ranges for 1992 that the Committee had established on a tentative basis at its meeting in July 1991. In keeping with the Committee's usual procedures under the Humphrey-Hawkins Act, the ranges would be reviewed at midyear, or sooner if deemed necessary, in light of the

behavior of the aggregates and ongoing economic and financial developments. The Committee approved the following paragraph for inclusion in the domestic policy directive:

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 this meeting established ranges 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 1991 to the fourth quarter of 1992. The monitoring range for growth of total domestic nonfinancial debt was set at 4-1/2 to 8-1/2 percent for the year. With regard to M3, the Committee anticipated that the ongoing restructuring of 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.

Votes for this action: Messrs. Greenspan, Corrigan, Angell, Hendricks, Hoenig, Kelley, LaWare, Lindsey, Melzer, Mullins, Ms. Phillips, and Mr. Syron.

Votes against this action: None.

In the Committee's discussion of policy for the period immediately ahead, all of the members favored or found acceptable a proposal to maintain unchanged conditions in reserve markets and to bias the directive toward possible easing during the intermeeting period. In support of this policy, members observed that reserve conditions had been eased substantially over the past several months, including the easing undertaken in the latter part of December, and that much of the stimulus from recent policy actions had yet to be felt in the economy. The members generally agreed that enough monetary stimulus probably had been implemented to foster the desired upturn in economic activity without further policy moves. Nonetheless, the high degree of uncertainty surrounding the outlook suggested

that the Committee needed to remain alert to the possibility of developments that might require additional easing.

In these circumstances, a majority of the members expressed a preference for a directive that was biased toward some easing. The lagged effects of earlier easing actions could prove to be less stimulative than anticipated, in part because of ongoing balance sheet restructuring activities. The persistence of a weak economy might well have especially severe consequences, and, in the view of some members, signs of such an outcome would call for prompt action. However, many members who supported a bias toward ease also stipulated that there should not be an unusually strong presumption that any easing would in fact be implemented during the intermeeting period ahead: The Committee should ease only in response to cumulating evidence that economic activity was not picking up or that monetary growth was falling appreciably short of current expectations. A few members, while not ruling out the possible need for further easing, preferred not to bias the directive in either direction. In this view, more emphasis needed to be put on the inflationary risks of overreacting to the current weakness in the economy, and a symmetrical directive would require more persuasive evidence of the need for some easing before action was taken.

With regard to the outlook for monetary expansion, some members expressed concern about the relatively sluggish growth of the broader aggregates. While the most recent data suggested some pickup in M2 growth, the behavior of that aggregate had been erratic in recent months and it was difficult to discern its underlying trend. According to a staff analysis prepared for this meeting, the growth of M2 and M3 could be expected to accelerate somewhat in the period ahead, given current conditions in reserve markets and some projected

strengthening in the economy. However, expansion of M2 probably would continue to be restrained by the aggressive reductions by depository institutions in their offering rates on deposit components of this aggregate and the continuation of related shifts of M2 funds into higher-yielding capital market instruments. In addition, the expected pickup in the pace of RTC resolutions over the balance of the first quarter would tend to moderate the growth of M2 and especially M3. To the extent that subdued growth of the broader aggregates were to reflect such special influences, there would not be significant adverse implications for the overall performance of the economy. Moreover, in the view of some members, the very considerable strength of narrow measures of money and reserves also tended to attenuate concerns about the possibly inadequate expansion of the broader monetary aggregates; indeed, in at least one view, the rapid growth of narrow money would become a worrisome development were it to persist. The members generally concluded, however, that somewhat faster growth in the broader aggregates would be a welcome development.

At the conclusion of the Committee's discussion, all of the members indicated that they were prepared to vote for a directive that called for maintaining the existing degree of pressure on reserve positions. The members also noted their preference for or acceptance of a directive that included some bias toward possible easing during the intermeeting period. Accordingly, in the context of the Committee's long-run objectives for price stability and sustainable economic growth, and giving careful consideration to economic, financial, and monetary developments, slightly greater reserve restraint might be acceptable or slightly lesser reserve restraint would be acceptable during the intermeeting period. The reserve conditions contemplated at this meeting were expected to be consistent

with growth of M2 and M3 at annual rates of around 3 percent and 1-1/2 percent respectively over the three-month period from December through March.

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 remained sluggish. Total nonfarm payroll employment was little changed in December, and the civilian unemployment rate rose to 7.1 percent. Industrial production fell slightly in November and December, partly reflecting a sizable drop in motor vehicle assemblies. Consumer spending has been weak on balance in recent months amid continuing indications of depressed consumer confidence and essentially no growth in disposable income. Demand for business equipment has been uneven, while nonresidential construction has remained in a steep decline. Single-family housing starts continued to recover in December. The nominal U.S. merchandise trade deficit narrowed in November, and for October-November combined the trade balance improved substantially from the third-quarter rate. Wage and price increases have continued to trend downward.

Short-term interest rates have declined appreciably since the Committee meeting on December 17, while longer-term rates have registered mixed changes. The Board of Governors approved a reduction in the discount rate from 4-1/2 to 3-1/2 percent on December 20. 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.

After accelerating somewhat in the fourth quarter, M2 and M3 slowed in January, partly reflecting temporary distortions around year-end. For the year 1991, the expansion of both M2 and M3 is estimated to have been at rates a little above the lower ends of the Committee's ranges. Growth of total domestic nonfinancial debt appears to have been marginally above the lower end of the Committee's monitoring range for the year.

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 this meeting established ranges 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 1991 to the fourth quarter of 1992. The monitoring range for growth of total domestic nonfinancial debt was set at

4-1/2 to 8-1/2 percent for the year. With regard to M3, the Committee anticipated that the ongoing restructuring of 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. In the context of the Committee's long-run objectives for price stability and sustainable economic growth, and giving careful consideration to economic, financial, and monetary developments, 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 December through March at annual rates of about 3 and 1-1/2 percent, respectively.

Votes for this action: Messrs. Greenspan, Corrigan, Angell, Hendricks, Hoenig, Kelley, LaWare, Lindsey, Melzer, Mullins, Ms. Phillips, and Mr. Syron.

Votes against this action: None.

2. Agreement to "Warehouse" Foreign Currencies

On February 5, 1991, the Committee had approved a reduction from \$15 billion to \$10 billion in the amount of eligible foreign currencies that the System was prepared to "warehouse" for the Treasury and the Exchange Stabilization Fund (ESF). The purpose of the warehousing facility is to supplement the U. S. dollar resources of the Treasury and the ESF for financing their purchases of foreign currencies and related international operations.

At this meeting, the Committee agreed to reduce the limit further to \$5.0 billion, a ceiling that earlier had been in place for many years. System holdings of foreign currencies under the warehousing facility had risen to a peak of \$9.0 billion in March 1990, but by the end of August 1991 they had been cut back to their current

level of \$2.0 billion. Accordingly, the new \$5.0 billion ceiling was expected to provide an adequate cushion of unused capacity and, thus, to maintain operational flexibility to respond on short notice to unanticipated developments.

Votes for this action: Messrs. Greenspan, Corrigan, Angell, Hendricks, Hoenig, Kelley, LaWare, Lindsey, Melzer, Mullins, Ms. Phillips, and Mr. Syron.

Votes against this action: None.