

Federal Open Market Committee

Conference Call

September 7, 1990

PRESENT: Mr. Greenspan, Chairman
Mr. Corrigan, Vice Chairman
Mr. Angell
Mr. Boehne
Mr. Boykin
Mr. Kelley
Mr. LaWare
Mr. Mullins
Ms. Seger
Mr. Stern

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

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

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

Messrs. Lindsey, Promisel, Simpson, and
Stockton, Associate Economists

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

Mr. Coyne, Assistant to the Board, Board of
Governors
Mr. Slifman, Associate Director, Division of
Research and Statistics, Board of Governors
Ms. Low, Open Market Secretariat Assistant,
Division of Monetary Affairs, Board of
Governors

Messrs. Eisenmenger, Hendricks, and Monhollon,
First Vice Presidents, Federal Reserve Banks
of Boston, Cleveland, and Richmond,
respectively

Transcript of Federal Open Market Committee Conference Call of
September 7, 1990

CHAIRMAN GREENSPAN. Good morning, everyone. This telephone conference call is the two-to-three-week post-meeting call I had promised. In view of the crucial nature of the data that are scheduled to come out today, I thought it might be a very useful time for us to have this call. I fully recognize that this is creating a disruption in the Atlanta meeting, and I hope we'll be able to keep this reasonably short. I'd like to spend a minute on what I think the employment report--which you may or may not have significant detail on--has shown and then update our views on the general outlook.

As I'm sure you're all aware, the employment report came out with an increase in the unemployment rate from 5.5 to 5.6 percent. There were significant upward revisions in the nonfarm payroll report: for June in the amount of 57,000 and for July in the amount of 130,000. Excluding Census worker changes, July now shows an increase of 73,000 and August 45,000. The composition in this relatively stable [picture], however, in one sense is weak in that manufacturing is down 45,000 even though--for reasons I haven't yet figured out--overtime hours went up a tick. The best news from our point of view is that average hourly earnings, which had been preliminarily estimated at .5 in June and .6 in July now read .5 and .4, with August at .2. Nonetheless, there is an indication of a weakened third quarter. The downward revisions that appear to be the case in the production worker hours for July and August suggest probably slightly weaker GNP growth than indicated in the Greenbook.

As a consequence of these data, we are preliminarily looking for a small decline in industrial production, in the area about 1/4 of a percent. Nonetheless, there is no evidence of which I'm aware that suggests that the economy is deteriorating at an increased pace. Initial claims for unemployment insurance are not showing any dramatic changes. And even though some of the press reports on the auto sales figures for the month of August were very negative, from what I can see the data don't look half bad. Autos really are quite crucial to this immediate period because, to the extent that there is a consumer shock from the oil price increase and to the extent that one looks at the confidence indexes and sees dramatic changes, one probably would find the consequences of that in big ticket durable goods items in consumer markets. And however one reads those auto sales figures, they clearly don't suggest that the market is fading away at a particularly rapid pace. As a consequence of all of this, I'm inclined myself to suggest that we do nothing at this particular stage. But I am fully cognizant of the fact that this is a very crucial period and a lot of things are going on, many of which we are not familiar with. Rather than merely assert a position, I frankly would be most appreciative if I could get any updated views from the members of the Committee since our last meeting. I purposely had not requested staff comments because it would impinge on the time of the Atlanta meeting. But if anyone wants to query any of our colleagues here, please do so.

MR. FORRESTAL. Mr. Chairman, this is Bob Forrestal. I would just report that since the last meeting of the Committee I continue to hear very pessimistic views from our directors and other business people. I think to a large extent they are reflecting activities in

their own particular institutions and are not taking a broader view. Nonetheless, at least in this District, there is a clear desire for some easing of policy. I must say that, while I have not had an opportunity to look at these employment numbers in any detail, I would slightly favor a move at the present time, as I did at the meeting. I'm not sure what the events in the Middle East are producing in terms of GNP and inflation. I don't think the employment numbers will pick up a lot in the month of August. But from a psychological viewpoint, it might be desirable to move the funds rate down by a 1/4 of a point. That's my view, based on what I'm hearing in this District.

CHAIRMAN GREENSPAN. Okay.

MR. KEEHN. Mr. Chairman, this is Si Keehn. I would agree largely with Bob Forrestal. In our District there are no significant changes that I would report since the last meeting. I agree with your assessment, particularly on the car sales. Having said that, if you look at the June, July, and August numbers for total sales of cars-- imports and domestic--there is something of a decline, though not a precipitous decline. It seems to me that to some considerable extent the market has discounted a change, particularly on the short-term side, and that if we don't move the fed funds rate, it may back up.

CHAIRMAN GREENSPAN. Could I just interpose? I meant to mention that the response of the market to the [employment] report this morning was a decline in the bond market of 1/2 point and a backing up of the bill rate by 4 basis points. That suggests that the market was expecting, obviously, a weaker report than this, especially in the context of the backward revisions to the data. There may well still be some judgment that the market is expecting us to ease, but I think it is clearly less. Don Kohn might weigh in on that issue--or Peter, if he is available.

MR. STERNLIGHT. Peter Sternlight, Mr. Chairman. I think you had it just right. The consensus from the market, as we have gathered it to this point, is that they see a move as less imminent or less immediate, though it's certainly in their minds that the economy is weak and they wouldn't rule out a move in a slightly longer horizon-- meaning weeks or months rather than days, I would think.

MR. BOEHNE. In the Philadelphia District, looking at it strictly from a District point of view, the weakness that I reported earlier continues. And if one were making policy based just on that Mid-Atlantic part of the country, I think there would be sentiment for some easing of monetary policy at this point. That's no different than it has been for several weeks, however.

CHAIRMAN GREENSPAN. Okay.

MR. PARRY. Mr. Chairman, this is Bob Parry. In the Twelfth District, there really hasn't been any significant change in views since the meeting. There is a lot of uncertainty, primarily associated with developments in the Middle East, but basically I wouldn't say that there is any substantive change. I would also say, on a national basis, that the data we've seen since the last FOMC meeting would not suggest any greater need to make a change than was apparent at that time. And I would support your viewpoint that a change in policy is not required at this point.

MR. BOYKIN. Mr. Chairman, this is Boykin. We really have not observed any change since the last meeting that shows a clear direction one way or the other. I also would be supportive of the position that you're taking of just standing by and not doing anything right now.

VICE CHAIRMAN CORRIGAN. This is Jerry Corrigan. I think there is a tremendous amount of anxiety out there. The anxiety may be worse in some ways than the reality, but it's there. There is a lot of sentiment in the markets and elsewhere on the side that there is a kind of window, if you want to put it that way, where policy might be more accommodative. But I don't see that the window is there on the basis of these numbers and the other numbers we have seen in the last couple of weeks. At least for now, I too would associate myself with the position you've taken.

MR. STERN. This is Gary Stern. I certainly agree with where you came out, Mr. Chairman. I would only add that we recently surveyed our advisory council members and directors and that survey didn't turn up anything very surprising. That is, while anxiety has clearly increased as a consequence of the developments in the Middle East, I didn't get a sense reading through the report on the survey responses that there really has been any discernible change yet in economic conditions, at least in our part of the country.

MR. GUFFEY. Roger Guffey, Mr. Chairman. I don't think there is anything substantially different in our District than what was reported on before. The general tenor in the Tenth District as to the outlook is that it's fairly promising. I also would agree with your position of no change. And we shouldn't overlook what a change might portend for the dollar, which is weak already.

MR. ANGELL. Mr. Chairman, Wayne Angell. I agree with your assessment. The money numbers look better than they looked at the time of the FOMC meeting and the foreign exchange value of the dollar looks even more precarious than it did then. Not to follow your advice and to make an easing move at this point really could [lead to] a devastating kind of market reaction. To me it would be unthinkable to make that move, so I support your position.

MR. MELZER. This is Tom Melzer. I would support where you came out as well. And I might add a comment on what the markets are doing: I continue to think that this is an environment where we ought to be sensitive to expectations that are reflected there.

I have a couple of comments based on a _____ is in the housing business nationally and he commented that the housing market is still turning down, even in some of the better markets. He happened to mention Sacramento. So, things in better markets are slowing down as well, which is not terribly surprising. I think the issue is just as consumers stay frozen for an extended period of time [unintelligible] confidence bounces back up. But I can see a scenario where things continue about where they are right now and consumer confidence could come back. A comment in the other direction: _____ in the trucking industry--and he also has national exposure--said the first couple of weeks of August were lousy in terms of volume but the second two weeks

picked up dramatically, and actually August came in as a very good month. Some of it could be military-related.

I agree very strongly with staying where we are right now, but I would not be at all surprised if down the road there came a time when we decided to move. One other thought I would share: If we're concerned about anxieties and consumer confidence and so forth, one could make the case that we [might] want to move when there is a very compelling case and we can move quite dramatically. I'm not sure that we necessarily are in an environment where we should be nibbling away at the edges. We don't have all that much room between the funds rate and the discount rate right now. Our Bank doesn't have a recommendation in for a discount rate change, as you know, but I for one would rather think in terms of possibly creating some room fairly early in this process, not later on. In other words, if we nibbled away at the edges with a couple of 25 basis point moves and then had only 50 basis points of [spread between the two rates], we might be forced for technical reasons to cut the discount rate at a time when we really wouldn't want to--sort of at the end of an easing as opposed to the beginning. That's just a thought for future reference.

MS. SEGER. This is Martha Seger. Even though I probably have a little dimmer view of the overall economy than the average view, I still would support the Chairman's position today to do nothing, mainly because I'd like to break the link between the BLS employment report and our actions. I think we have made that link too apparent to the markets. So even though I think, as Tom Melzer said, that the time will come in the not too distant future that we'll want to ease, I would rather not do it on the day of the release of this report. Also, I'd like to make a significant enough move so that it really has an impact.

MR. KELLEY. This is Mike Kelley. I concur with the recommendation for all the reasons that have been recited and would add just one more. And that is, that the budget summit is reconvening and I'm not sure that a move now would be construed in a context we would like. I think there would be a linkage made there, and not a good one.

MR. LAWARE. This is John LaWare. I would go along somewhat reluctantly with the recommendation. I'm not persuaded that the economy is really so very strong as the indications would suggest. I rather agree with Martha. On the one hand, if we wait until we get a clear signal of what we ought to do, it may be too late to really make much difference. On the other hand, I don't have a persuasive argument why we should move at this point.

MR. MULLINS. This is David Mullins. I agree with John LaWare generally in sentiment. I would agree that this is not an attractive window in which to move, but I don't really see those opportunities becoming a lot easier as the oil price numbers start to work their way through to the CPI. I'm also a little concerned with the notion that we make larger moves because I feel there is an advantage in gradualism and stability; and if we wait too long and the situation does deteriorate, we will be in a situation of making larger changes in policy, which concerns me. But I would agree that the current situation, especially the reaction of the long-bond market, does not appear to suggest a good opportunity to move. I'm a little

concerned about our getting trapped in a tautological [unintelligible] situation with bond market expectations--where they don't expect us to move so they don't move and we don't move because they don't move. So, I think we should think pretty carefully and look for opportunities as we move on. But I would support the Chairman's position at this time.

CHAIRMAN GREENSPAN. I think that we should stand with an asymmetrical directive toward ease. And I view that as a position in which if there is a clear opening to move and the evidence suggests that it is desirable, that we do so. But this is such an extraordinary period in which the particular moves the Committee makes are going to be crucial for a good long time, so I would suggest that this might be an intermeeting period in which we should have more rather than fewer telephone conferences. Obviously, we will be getting data next Friday on retail sales for August, which will be a very crucial number. The problem I have is that whatever number comes out I am certain will be revised very substantially. I wish I knew which direction that would be. It will also be interesting to see the PPI that emerges as well as the initial claims data. So, I am looking at what are some very clear differences of opinion in this Committee. And I think it might be not only useful but appropriate that we meet again, perhaps in a week or so, and discuss where we stand.

MR. PARRY. This is Bob Parry. I wonder if at that meeting we could have an update of the forecast by the staff, because in addition to looking at these individual statistics it's probably even more important that we make the policy move on how we see the future. It would be very interesting, I think, to get an update on their projections.

CHAIRMAN GREENSPAN. Mike, is that feasible? Mike Prell shakes his head.

MR. PARRY. In which direction? [LAUGHTER]

MR. PRELL. Up and down!

CHAIRMAN GREENSPAN. If there are no further comments, I'll adjourn the session. The session is adjourned.

END OF SESSION