

Federal Open Market Committee

Conference Call

March 11, 1992

PRESENT: Mr. Greenspan, Chairman
Mr. Angell
Mr. Hoenig
Mr. Jordan
Mr. Kelley
Mr. LaWare
Mr. Lindsey
Mr. Melzer
Mr. Mullins
Ms. Phillips
Mr. Syron

Messrs. Boehne (Board), McTeer, Keehn, and Stern,
Alternate Members of the Federal Open Market
Committee

Messrs. Black, Forrestal, and Parry, Presidents of
the Federal Reserve Banks of Richmond,
Atlanta, and San Francisco, respectively

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

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

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

Mr. Wiles, Secretary of the Board, Office of the
Secretary, Board of Governors
Mr. Ettin, Deputy Director, Division of Research
and Statistics, 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

Mr. Oltman, First Vice President, Federal Reserve
Bank of New York

Transcript of Federal Open Market Committee Conference Call of
March 11, 1992

CHAIRMAN GREENSPAN. Good morning. The reason for this conference call is that the interval between our regular meetings is exceptionally long in this intermeeting period, and I thought it might not be a bad idea for us to have a quick review of what is going on. We'll have shortened reports from staff and hopefully go around the table to get some judgment as to what each of you sees within the individual Districts and in the economy as a whole. First, I'd like to welcome Jerry Jordan, who I gather is one-day old as a [Reserve Bank] president. Jerry, are you there?

MR. JORDAN. I'm here. Good morning.

CHAIRMAN GREENSPAN. Good morning and welcome.

MR. JORDAN. Thank you.

CHAIRMAN GREENSPAN. To start off I'd like to call on Bill McDonough to bring us up to date on what has been going on in the exchange markets since the last meeting.

MR. MCDONOUGH. Thank you, Mr. Chairman. At the time of the last meeting the dollar appeared to be in a trading range of around 1.6 deutschemarks and 125 yen. But we mentioned the definite possibility of considerable volatility and larger moves than economic fundamentals appeared to justify. That view of the dollar and the market has turned out to be quite close to what has happened. The dollar was quite strong early in the period, mainly as a reflection of a weak yen and mark. But in the last several weeks the dollar has been strong in its own right as foreign exchange market participants have accepted all bullish data at face value and ignored bearish signals. This morning the DM reached [1.6730], a depreciation against the dollar of just over 4-1/2 percent since our last meeting. The exchange rate mechanism within the European Monetary System has been characterized by some strengthening in the narrow band of currencies against the deutschemark and a continuing weakness of sterling, with the pound fully extended against the [deutschemark] within a wide band. The sister currency, the Swiss franc, has been weak and the Swiss National Bank intervened last Friday with sales of _____ and the equivalent of _____ of marks. This morning the Swiss were in again and sold _____. The weakness of the Swiss franc seems to be a result of weakness in the real economy, some slippage in price performance, and an unsuccessful attempt to have their interest rates lower than those of Germany.

The Japanese yen is trading at 133.73; that's a depreciation against the dollar of 7 percent since the last meeting. The Japanese monetary authorities have sold a total of _____ in what has been a rather ineffective effort to stop this trend. The U.S. Treasury joined in the intervention when on February 17th we sold on their behalf \$100 million at 127.36 yen to the dollar. On February 20th, we intervened again by selling \$50 million at 128.13 yen, with that operation shared equally by the Federal Reserve and the Treasury. The Japanese have continued to intervene, in fact as recently as this morning when they sold _____ in their time zone. They did not ask the U.S. authorities to join. The Canadian dollar has also

weakened by about 1.6 percent since the last meeting to \$1.1950 to the U.S. dollar. And that's despite very heavy intervention by the Canadians totalling about U.S. dollars.

Undersecretary Mulford told me that at the G-7 deputies meeting there was general agreement that the yen was weaker than fundamentals would indicate but no agreement on doing anything. The Japanese

As Mulford said, and as Governor Angell and I heard loud and clear at the BIS two days ago, the Europeans
The Germans

Their neighbors, led by the British and the French, are

Needless to say, the British government

So, the Japanese are
Both Governor Mieno and his international deputy told me at the BIS meeting that

Mr. Chairman, the only intervention for the Federal Reserve since the last meeting was the sale of \$25 million against yen that I mentioned a moment ago. I would be happy to answer any questions.

CHAIRMAN GREENSPAN. Bill, on the extraordinary weakness of the Swiss franc, my recollection is that the Swiss franc short-term rates ran up very sharply against DM-denominated rates for, I believe, 30-to 90-day maturities, and yet the franc continued to weaken relative to the DM. Now, this was in the last week or two. How does the market describe that? In other words, I think there was a 75 basis point rise in the spread without any demonstrable slowing in the rate of decline of the Swiss franc vis-a-vis the deutschemark.

MR. MCDONOUGH. Mr. Chairman, I think what happened is that the Swiss in January reduced their short-term rates and brought them, if I remember correctly, about 125 basis points beneath the short-term German rates. The market at that time was also sluggish in its response. It didn't attack the Swiss franc until about the last two weeks. And then when the Swiss reversed the interest rate movement and sought to close the differential, the market did not respond to that either. So, they gambled and lost on the interest rate differentials and paid for it with about a seven-week lag. Now they don't seem to be able to stop the market from punishing them despite the interest rate move.

CHAIRMAN GREENSPAN. Any other questions for Bill?

MR. FORRESTAL. Mr. Chairman, Bob Forrestal in Atlanta. I'm just wondering, Bill, if there has been any substantial effect on sterling as a result of the British election outcome this morning?

MR. MCDONOUGH. No, the stock market and the bond market in the United Kingdom got hit largely because of the increase in the borrowing requirement, which about doubled. There is a general conviction that they will not be able to ease short-term money rates. There's a British political tradition there. In the history of the United Kingdom, they have on only two occasions lowered interest rates after they called the election and before the dissolution of Parliament, which is next Monday. And they have never reduced interest rates between the dissolution of Parliament and the elections. So, it's this conviction that they probably won't lower interest rates tomorrow or Monday or Friday that is holding sterling pretty steady.

MR. FORRESTAL. Thank you.

CHAIRMAN GREENSPAN. Other questions for Bill? If not, let me call on Peter Sternlight to update us on the Domestic Desk.

MR. STERNLIGHT. Thank you, Mr. Chairman. Domestic interest rates have moved up since your meeting in early February, though with a good bit of backing and filling in response to particular news reports on the economy and partly related [policy] anticipations, which at times folded in and then worked out against expectations of further monetary policy easing. The persistent influences over the five weeks were a nearly unrelenting sense of endless supply and more recently a bit of growing confidence in the economy. The economy is not seen as in a strong rebound, but there is a more widespread view that we've probably seen the low point and can likely anticipate a moderate advance. Money growth has been getting a bit more attention as the period has gone on. While fed funds rates are pretty close to the 4 percent level, bill rates have risen about 15 to 40 basis points. The two-year area is up nearly 1/2 percentage point; the five-year note is up about 30 basis points; and the long bond is down about 10 basis points, putting it at about 7.90 percent today. Those changes actually are off the highs, but a couple of times during the period the long bond has touched 8 percent; it has seen pretty good investor interest. The two-year rate at one point backed up to [a level] about 60 or 65 basis points higher than it was at the time of your last meeting.

Policy expectations in the market are pretty generally on hold just now. A few people, probably economists more than investors, feel that there could be another easing somewhere down the road. It is not a very widespread view. And a few are beginning to anticipate a firming in policy, but this is seen to be a number of months away at the earliest. The predominant view, as I say, is just a straight down the middle anticipation for at least some months ahead. It seems to us that concerns about fresh fiscal stimulus, although they have been there in marked form at times and are still in the background, have abated along with a bit of a growing sense that Congress and the Administration may not be able to get anything together in the near term on that problem. As to operations, we had some reserve needs late in the period. We've been meeting them recently largely through repurchase agreements as we look forward to a big release of reserves next month through the reduction in reserve requirements. That's all I have to report, Mr. Chairman.

CHAIRMAN GREENSPAN. Questions for Mr. Sternlight? If not, let's move on to Mike Prell.

MR. PRELL. Thank you. In the last Greenbook we had a forecast for the first quarter of only a slight increase of about 0.5 percent at an annual rate in real GDP and then a moderate pickup in the second quarter. The data we've received since that time have been somewhat mixed but on balance suggest to us that that general pattern still is a reasonable guess. If anything, though, I think the first quarter could come in a bit higher rather than a bit lower than our Greenbook guess. But we wouldn't really see it as a material difference at this juncture.

The tenor of the news from the retail sector has been better than we anticipated but, of course, we'll know more statistically tomorrow when we get the February retail sales release. The housing market has been quite firm recently, largely in line with our expectations or maybe a little better. But given that the strength in starts and new home sales seems to be so concentrated in the Midwest, one wonders whether there is some statistical noise in the data and whether things really have picked up as much as the data suggest. And, of course, we have to be a little concerned looking forward about the consequences of the backup in mortgage rates. We have not heard very much to indicate that that has put a dent in the market to this point, although the mortgage bankers series does suggest that the demand for new mortgage loans, whether for refinancing or for new purchases, has slackened considerably in the last few weeks.

On the equipment side, the orders have looked a bit better than we might have anticipated. We don't know whether that will be domestic equipment spending or exports; but in any event it's output and it's worth a little more perhaps than we had built into our forecast. Nonresidential construction continues to look very weak. The inventory situation is in broad terms in line with our expectation that there would be an inventory adjustment in the first quarter. The fourth quarter came out worse than most people expected in terms of accumulation. We only have a few data, manufacturing and wholesale trade for January, that do show some liquidation. We think the industrial production drop in January reflected this adjustment process. February appears to be a period of some considerable rebound in manufacturing, probably not enough to fully offset the January decline, however. And we're still expecting to see the first quarter overall down appreciably from the fourth-quarter level for industrial production. On the employment report, the unemployment increase was generally in line with our expectation that it was going to go up further. The employment and hours figures were stronger than we anticipated but there are some things in the data that lead us to discount those numbers heavily. One is that the average workweek has been very volatile in the last couple of years, and we find it very difficult to buy the tremendous jump in the workweek that we saw in the February numbers. Also, the payroll employment increase was in essence totally in retail trade and in motor vehicles production. We know there's a seasonal adjustment uncertainty with the retail trade figures and consider it unlikely that we're really into a period of substantial renewed growth in retail employment. And in the manufacturing sector, motor vehicle employment probably did increase as the assembly schedules were [raised], but we don't expect ongoing increases there. So, as I said, on the whole there's a little better

tone than we had anticipated, but we think we're generally on the track that we had of very modest increases in activity at this time.

On the price side, the January consumer price index was favorable relative to our expectations. We didn't get the so-called January effect of some of the series that tend to be adjusted once a year, [producing] a big increase in January. On the whole, we think developments are definitely in line with our expectations that the price trends would be favorable. Thank you, Mr Chairman.

CHAIRMAN GREENSPAN. Questions for Mike?

MR. ANGELL. Mike, what are you seeing for energy prices, mainly oil prices, for the remainder of 1992 as compared to your earlier view of that?

MR. PRELL. I might defer to Charlie Siegman; I don't think we've seen enough to change our assumptions greatly, which did have pretty much a flat picture in oil prices.

MR. SIEGMAN. Right, we have not changed them, but we are in the process of making the forecast for the next Greenbook. The little blips in the oil price have not made us change the near-term forecast.

MR. LINDSEY. Mike, would you refresh our memories on what the fiscal policy assumption was in the Greenbook?

MR. PRELL. Our fiscal policy assumption was for no change in the overall fiscal picture except for the change in withholding schedules. Of course, at this juncture, that seems to be a pretty good assumption in terms of the likelihood that [legislation] will be passed and vetoed and there may be a stalemate. On the other hand, we really thought something probably would be passed by the spring; we just didn't know what it would be. There's still reason for uncertainty. There is certainly talk that there may be some effort to come back with a much slimmer package of things like passive losses and some investment tax break and perhaps something for first-time home buyers. But at this point we would probably resort to the same statement of ignorance and not incorporate any new fiscal policy assumption.

MR. PARRY. Mike, this is Bob Parry. It appears as though the economic [progress] among major industrial nations has deteriorated a little. Have you changed the assumptions you have made about economic growth in the industrialized nations?

MR. PRELL. Well, I should caution that we are just beginning the Greenbook forecasting process and, as these things relate to the pattern of activity out over the remainder of the year, we can't state with any great firmness where we're going to end up. But Charlie may want to say something about how things are developing.

MR. SIEGMAN. The information coming in is still mixed with regard to whether there's a deterioration. In Japan, it looks as if the weakness is getting a little more widespread. At the margin we would probably be scaling [the forecast] down, but it would not be a very significant adjustment. One other item with regard to Germany is that price developments don't look very favorable, at least in the

near term, and that adds a certain amount of caution to any possible adjustment by the Bundesbank.

CHAIRMAN GREENSPAN. The figure that was released yesterday was not very good.

MR. SIEGMAN. No, it was not very good; it was 4.3 percent year-over-year, which is higher than previous months' year-over-year figures. And wage developments are also uncertain right now. There are possibilities of strikes, and that adds other elements of uncertainty in the German picture.

MR. PRELL. We also, of course, will have to incorporate the developments in the exchange market. My intuition at this point is that there has not been anything on the external side that suggests a more favorable outlook for demand for U.S. produced goods over the next few quarters.

CHAIRMAN GREENSPAN. Any further questions for Mike?

MS. PHILLIPS. What about agriculture? There seems to have been a runup of prices in the last couple of weeks. Is that something related to the weather?

MR. PRELL. There have been weather effects. There have been effects flowing from deals with the former Soviet Union and so on. I don't think that picture has changed in any way that would have any material effect on our forecast. We still view that, looking out over the next year or so, as an area containing some significant upside price risks just because of the very lean levels of inventories. And I don't think anything that has happened on the production side changes that picture at this point.

CHAIRMAN GREENSPAN. Yes, I assume that the wheat price runup in recent data is wholly weather-related. The freeze came in after a thaw.

MR. ANGELL. It was a runup based upon a predicted freeze.

CHAIRMAN GREENSPAN. Did the predicted freeze show up?

MR. ANGELL. I haven't checked.

MS. PHILLIPS. Yes, it's here right now! Apparently corn and livestock prices have firmed; it's sort of across the board.

CHAIRMAN GREENSPAN. Any other questions for Mike? If not, let's go to Don Kohn.

MR. KOHN. Mr. Chairman, growth in the monetary aggregates has been appreciably stronger than we were expecting at the time of the last FOMC meeting. For February, we're looking at an M2 growth rate of about 8-3/4 percent; the Bluebook had 4-3/4 percent. For M3, we're looking at 6-1/4 percent and the Bluebook had 3 percent. A lot of this is in M1. M1 growth now looks to be at about a 27 percent annual rate of increase in February versus about 18 percent in the Bluebook. But it's not all M1; the non-M1 part of M2 has accelerated a bit and is stronger than we expected. There are some special

factors here, especially mortgage prepayments and their effects on demand deposits as those are held in accounts for forwarding to Ginnie Mae and Fannie Mae. The other factor is that there was a change in the timing of refunds. There was a bulge in February, more than usual, as people filed early and used the electronic filing process. But even after taking account of those two factors, I think we still got more strength in money than we were expecting. Basically, this is a response to the sharp drops in interest rates last year. Most of the strength is in the liquid accounts--savings, MMDAs, demand deposits--whose rates have fallen but not very much and they're relatively more favorable than those on time deposits and market rates. The strength in M3 is not a reflection of strength in bank credit. We're estimating about flat bank credit in February, after growth of 3 percent in January and 6 to 7 percent in the fourth quarter of last year. Some of the tailing off is in the securities portfolios, and we think that some of that is catching some of the early prepayments in the collateralized mortgage obligations. Business loans have been exceptionally weak the last few months. Issues of bonds and stocks are being used to prepay [loans] and perhaps inventories are declining as well. But we do have quite a bit of weakness in business loans.

Looking at the last few weeks, we've had a flattening in money growth. I think some of it is just noise. It was stronger than expected in February and we can expect a little weakness here. We do have rising opportunity costs as market interest rates turn around relative to deposit rates. Demand deposits have flattened. Perhaps the prepayment pipeline is full and, although prepayments continue very strong, we're not getting any additional push from that. In any case, even with very flat money growth in March we would be expecting the aggregates for the December-to-March period still to be above what the FOMC was anticipating at the last meeting. We would have about 4-1/4 percent M2 growth relative to the 3 percent in the [directive] and about 2 to 2-1/2 percent M3 versus the 1-1/2 percent that was in the [directive].

CHAIRMAN GREENSPAN. Questions for Don?

MR. MULLINS. Don, two questions: How does household M2 look? Secondly, what is the projection for March?

MR. KOHN. Household M2, Governor Mullins, has accelerated through February. For the uninitiated, household M2 is M2 minus demand deposits and minus RPs and Eurodollars; that is, it takes out some of these very volatile categories. To give a little time series on that, growth was about 1-1/2 percent in December, 2 percent in January, and 4-1/4 to 4-1/2 percent in February. We do see that flattening out. We have projected very little growth, if any, in March. So, it's not just demand deposits that are flattening out; it's also the increases in savings deposits and MMDAs. They are still increasing, but [the pace] is weakening a bit. Time deposits continue to run off at a rapid rate. In that regard, we continue to hear about--and get weekly data suggesting--very large inflows continuing into stock and bond mutual funds. With regard to the March projections for the aggregates, we are now projecting on a very preliminary basis about 1-3/4 percent M2 growth, M3 about flat, and about 13 percent M1 growth. That's on the basis of small weekly increases from now to the end of the month.

MR. ANGELL. Don, that does bring March then to just about exactly on the midpoint of our target range from Q4?

MR. KOHN. Yes, Q4 to March would be 4-1/4 percent; actually, Q4 to February was more like 5-1/2 percent.

MR. KELLEY. Don, do the differences between what you now expect and what you expected before fall within what you would normally expect as a forecasting error? Or are there some new factors that have shown up?

MR. KOHN. No, I'm pretty humble about our ability to forecast this, given that we're not that far off. We had several percentage points more strength in February, but [growth] is flattening out in March. For the three months combined, it's not that far different--approximately a percentage point off--from what we had thought. We did have March weaker in our projection. We could see that opportunity costs might widen as deposit rates went down and things like that. So, we had some weakening in March built in already.

CHAIRMAN GREENSPAN. Other questions for Don? If not, I think it would be useful to hear from the presidents first, updating their views on activity within each of the Districts and anything they would like to add with respect to their views on the national scene.

MR. MCTEER. Mr. Chairman, this is Bob McTeer from Dallas.

CHAIRMAN GREENSPAN. Go ahead, Bob.

MR. MCTEER. Generally, everything is about the same: Activity is rather flat in the Dallas District. The big exception is that there seemed to be a surge in retail sales in February. We've been getting anecdotal reports [on retail sales] from all over; we even had Beigebook contacts call in unsolicited to report this and to inquire whether other Beigebook contacts were reporting the same thing. They're looking for confirmation since it seemed so strong relative to what they had been experiencing and what they had been expecting. But that's the only major area that's different from what it has been.

MR. FORRESTAL. Mr. Chairman, this is Bob Forrestal from Atlanta. We are seeing the beginnings of a surge in activity, if I can put it that way. The housing market is stronger. Like Bob McTeer, we have anecdotal information about retail sales picking up. The manufacturing sector is showing some rebound, particularly in those areas related to housing such as furniture, carpets, glass, and stone. I also heard just recently that the packaging industry is picking up considerably. But the interesting thing to me is that this activity that is being reported, although not terribly robust, is better than it was when we sat at the last FOMC meeting, and it's fairly broadly based around the District; it isn't concentrated in any particular area. I should add also that employment seems to be picking up in some of our states and discouraged workers seem to be coming back into the marketplace. My sense is that confidence is somewhat better; the tone is certainly better than it was several weeks ago. So, things are looking somewhat better in the Sixth District.

MR. KEEHN. Mr. Chairman, this is Si Keehn in Chicago. It would be difficult to enumerate a long list of indicators that would suggest a pickup in activity on a sustained basis, but there are some decidedly encouraging signs out there. I have not seen proof but I think there is a developing expectation that things are going to get better. [For auto assemblies] the most recent trend is a little disappointing but still, as Mike has commented, production levels in the first quarter are some 6 to 7 percent higher than in the first quarter of last year which admittedly was hardly a [unintelligible]. The early schedules for the second quarter also show an increase of 7 to 8 percent in production levels, so that's on the plus side. Retail sales certainly have improved. And, while the increases on a current basis are rather slim, nonetheless clearly there is a better retail attitude out there [than there was] in January and February. Many retailers claim that they really are surprised by the strength that they are seeing. More significantly, home sales have improved, especially in the Midwest. And I think the very significant [unintelligible] that we've seen is very remarkable. [However,] there's a lot of noise in the numbers. We've had an extraordinarily mild winter, which has helped; also the current inventory is pretty low. One local residential retail dealer said he had a very, very good February--in fact the best February he's ever had. Therefore, I think it's clear that lower rates are working their way through to the residential market to show a definite improvement. I must say that while the situation is far from [certain], I do think that on balance conditions in the Midwest are better. Attitudes are improved and the signs are that the U.S. economy has bottomed out.

MR. PARRY. Mr. Chairman, this is Bob Parry in San Francisco. It appears as though there really hasn't been any significant change in the economic situation in the Twelfth District. California remains as weak as I indicated at our last FOMC meeting and some of the other states such as Idaho and Utah continue to do very well. The only thing I would note as a change is that there are some differences in tone; the tone is somewhat more optimistic. We clearly have a much better housing situation, and it appears as though sentiment has improved somewhat. But I would characterize the changes at this point as being quite minor.

MR. ANGELL. Mr. Chairman, I'd like to go back to Si and ask for an update on Caterpillar.

MR. KEEHN. Well, the change there is basically for the worse. Caterpillar has called back some workers and [unintelligible] UAW then struck those plants. The standoff continues; I think it's worse. The [unintelligible] situation is deteriorating; the UAW attitudes [unintelligible]. It clearly has gotten worse and there are no signs that there is going to be a break because both sides have dug in very hard. It's the pattern issue that I commented on before that is the breaking point.

MR. ANGELL. Thank you.

MR. SYRON. Mr. Chairman, this is Dick Syron in Boston. I think the situation here is summed up by one of our contacts for the Beigebook who said: "The situation isn't good but it's better than lousy." People have felt bad for a long time here, and what we hear from talking to people more extensively is very consistent with what

others have said today. Retailers are doing somewhat better than they expected; they don't know about [the reliability of] exact comparisons because of the CNN effect last year. Auto dealers actually are doing a fair bit better; there is improvement in real estate, etc. Interestingly, the manufacturing sector is rather a mixed situation. There is some deterioration in exports except [unintelligible] in Latin America and in some of the less developed countries, the kind of stuff that we sell. Overall, though, we do see some signs of a pickup beginning, but there are concerns about its durability and not a lot of evidence that leads to expecting it to be very robust. A lot of concern has to do more with long-term structural problems than the current cyclical situation in our region. Thank you.

MR. STERN. This is Gary Stern. We have seen modest improvements in a wide range of areas. Retail sales look reasonably good; part of that, as I've commented before, is Canadians coming across the border to take advantage of lower prices here. People in agriculture are generally positive, as you might expect, and the largest component of the mining sector at least looks pretty good. Around the Twin Cities in particular, housing activity--both new construction and sales of existing units--has been quite strong. [Unintelligible] also has picked up and I suspect this may be true in some of the other major metropolitan areas as well. We have a fairly large regional industry out here--[perhaps the largest] except for north of Boston--and one firm said they just can't keep up with the business; they're adding people almost daily. There's a huge volume of funds flowing in and it really is generating lots of activity.

MR. HOENIG. Tom Hoenig in Kansas City. I'd like to report that our District is pretty much status quo. There is some slight improvement in the retail sales area, which is a positive sign to us. Auto sales have picked up a little also. The housing area has been very robust, as others have reported, but how sustainable it is, I think we'll just have to wait and see. In the agricultural area, our folks report that there has been some increase in the weaker credits in the banks that are related to agriculture. However, the borrowers are better prepared to deal with that and, with the stabilization of prices somewhat in livestock and the increases in grain prices, they are pretty optimistic [for the period ahead]. The energy sector here is still very weak. Jobs and the rig counts continue to fall; right now the rig count is about 25 percent below a year ago. So, that area is not picking up at all. That pretty much describes the view.

MR. LAWARE. Tom, when you say the housing area is robust, what are you referring to: new houses, starts, permits, or the refinancings?

MR. HOENIG. Permits at this point, although refinancing is also very strong. New home sales are up a fair amount from a year ago and the inventories in that market are dropping.

MR. LAWARE. Thank you.

MR. OLTMAN. Mr. Chairman, this is Jim Oltman in New York. I think the mood here can be described, following on Peter Sternlight's description of the mood of the market, as one of cautious optimism. I would say that with a fairly heavy emphasis on "cautious." There has been some improvement in the last several months in department store

sales and some uptick in new home sales, but there's a great deal of concern about the longer-term structural problems that may be lurking there--the kind that Dick Syron alluded to. Bankers particularly, I think, are not at all convinced--assuming that this is a recovery--that it is a recovery of the kind they are familiar with. Refinancings of mortgages are going into shortening the terms of those mortgages to an unprecedented degree. And, as has been mentioned by several people already, the movement [of funds] particularly into equity [and] bond markets continues at a significant rate. Although I think there's a general attitude that things are not as good as had been hoped, there is some ground for increased confidence.

MR. BOEHNE. The Philadelphia area economy is much as has been described around the country. I would say overall conditions suggest steady to some modest growth. We've seen the same uptick in retail sales and traffic going through retailers as has been evidenced around the country. I think there are some real dollar increases over a year ago. The automobile dealers report increases in sales. In manufacturing, we've seen increases in new orders, production, and shipments. One of the more striking features there is that as their orders and business have picked up in the short term they're questioning once more what is going to happen in the longer term. I'm not quite sure what that is unless it's just a psychological feeling that if things are bad, they're going to get better and, if they're good, they may not last. That may be the feeling they have. We have strength in sales of used homes, although there is some pickup in new homes. Commercial and industrial real estate is still very soft. Bankers have not seen an increase in loan demand outside the residential mortgage area. There are new loans in the pipeline that are being made but the paydowns of existing loans are still offsetting the increases. Attitudes are somewhat better, but they're very cautious. It's a wait-and-see attitude. But I think if you asked most people they would say: "Yes, this may be the beginnings of a recovery."

MR. MELZER. Alan, this is Tom Melzer. I'm glad I didn't have to go first to try to jump start things today; it took a while to happen. In our District we're seeing the same things in terms of retail sales and residential real estate that others have reported. And the problem is sort of the same. What has been most striking to me is that in the manufacturing area we're seeing the potential for what may be some widespread employment gains. We're seeing established manufacturers calling workers back: a tire manufacturer, a major household appliance producer, an electric motors company. This is on top of, in the case of the major appliance producer, earlier callbacks. We're also seeing expansion in activity: new plants in aerospace, plastics, jet engines, and steel. We're also seeing some relocations, which will result in employment gains in the District. My feeling is that people don't think about relocating and consolidating plant operations and so forth if they are concerned about the outlook. So, that's where we've seen the most striking new piece of anecdotal information. Just on a broader note--

CHAIRMAN GREENSPAN. Tom, before you go on, how much of that is aerospace improvement?

MR. MELZER. Actually, what I had in mind there is a new plant that has to do with the shuttle space program. It wouldn't be here in St. Louis.

CHAIRMAN GREENSPAN. They are moving some of their activities?

MR. MELZER. I think McDonnell on net is laying people off; they're adding some engineers here but on balance I think it's probably pretty flat.

CHAIRMAN GREENSPAN. Go ahead. I interrupted you; I'm sorry.

MR. MELZER. On a broader note I would suspect we're still going to see mixed data. Right now, as Bill mentioned in his foreign exchange report, everybody is reacting to the positive information. It wouldn't surprise me as we go on here and see some additional negative information to have expectations swing in the other direction. But from a monetary policy point of view, I think we have to be very cautious about responding to that because I do have the feeling that we may be at the incipient stage of a recovery. And our focus is going to have to shift from the concept of trying to let more line out to getting the line back in. I'm not talking about when we next meet certainly, but I think we just have to be very cautious at this stage about how we react to incoming data and shifting expectations. I expect them to continue to be quite volatile, and we have to take a longer-term view of things.

CHAIRMAN GREENSPAN. We're still missing Cleveland and Richmond.

MR. BLACK. Mr. Chairman, this is Bob Black. I would also [be cautious about] overpredicting either the timing or the strength of the recovery very accurately, to a large extent because of all the structural changes superimposed upon cyclical factors. On the side of conventional wisdom, this quarter [unintelligible] and we ought to do better next quarter.

As far as the District is concerned, we have not gotten anything that statistically supports that rebound [unintelligible]. [There seems to be an] improved outlook on the part of the retailers, manufacturers, and most every other respondent in our survey. So, I think the expectations are better. One main fear that seems to be cropping up in a lot of people's minds is what is happening to the long end of the yield curve. I'm not sure I understand [why it is happening]; I don't know if anybody does. But the [long end of the yield curve] does bother me and I think, along with a lot of other people in this part of the country, it has made clear that the markets feel that [the progress on] the price level may weaken somewhat or that at least for the time being we're not paying as much attention to it as we were earlier. So, we are rather cautious about the outlook for the economy.

MR. JORDAN. This is Jerry Jordan in Cleveland. I have not had a full briefing yet on conditions in the District since arriving, but my first impression yesterday was how incredibly cold it is here! Part of the District, though, is not different--

CHAIRMAN GREENSPAN. Incidentally, Jerry, I think we here at the Board will forecast for you that it will get warmer over the next six months!

MR. JORDAN. Very good news. Conditions here certainly are not different from what is being reported for other Districts around the country. One statement that we can make is that it is not getting any worse and that there has been a very tentative improvement. In fact, retail sales in February were reportedly better than expected though there is not a lot of confidence about how sustainable that is yet.

CHAIRMAN GREENSPAN. Would any of the governors like to hold forth on any of these issues or ask questions amongst ourselves or to the presidents?

MR. ANGELL. I'd like to return to the oil price question and the exchange rate question. Charlie, what I'm wondering is: If the dollar is on the stronger side, as some of us have been suggesting for the last six weeks, and if the economies abroad in Europe and Japan are on somewhat subdued growth paths, how would you expect the price of oil to be able to be increased in deutschemark and yen terms? Under those somewhat lessened demand conditions, would there not be a tendency for the price of oil to remain somewhat stable in those currencies and to rise in dollars?

MR. SIEGMAN. The difference we're talking about is relatively small. The current price--

CHAIRMAN GREENSPAN. You meant the falling prices.

MR. ANGELL. Yes.

MR. SIEGMAN. Our assumption for the oil price for the full year is around \$18 [a barrel].

MR. ANGELL. I know.

MR. SIEGMAN. That is not very much different from prevailing prices. And partly it's going to be affected by what OPEC does with its control of the supply. If they are successful in curbing sales, then that's likely to keep the price--

CHAIRMAN GREENSPAN. This is getting increasingly more dubious with the fiscal problems that the Saudis have. It strikes me as less than credible that they're about to rein in their liftings in any material way. And while it is true that there have been some minor cutbacks across the board among the other OPEC members, it seems that it's really well under their desires. I would assume that, if anything, non-OPEC demand for crude at this stage has to be scaled down a shade from where we would have had it a number of weeks ago.

MR. SIEGMAN. Yes.

CHAIRMAN GREENSPAN. And we are not even raising the issue that Governor Angell is raising with respect to the exchange rate question.

MR. SIEGMAN. We will review the assumptions for the next forecast very carefully.

CHAIRMAN GREENSPAN. I think it's going to be hard to hold the price up there if for no other reason than that the pressures at this stage I would assume are for [production in] Kuwait to start to come back; Kuwait is adding 100,000 barrels a day every quarter or every couple of months. And the Iraqis could really open up [their production] if all of a sudden they reached some sort of deal, which no one is counting on. It probably won't happen soon, but at some point it is going to happen.

MR. MULLINS. There always remains the possibility of some disruptions in that region.

CHAIRMAN GREENSPAN. That never happens!

MR. PRELL. Mr. Chairman, if there were a significant drop [in oil prices] from current levels, I think that would make a dent in our forecast. But at this point we're talking about differences from where we expect things to be later in the year of only a dollar or two. And that was within the range of various factors that could be changed in this forecast. I don't think we're way off track at this point. But if, as suggested, there is a risk of a material decline from these levels, then prospects would look a little different.

MR. ANGELL. Well, I was thinking more in terms of \$2 a barrel, which is I guess within your range of not--

CHAIRMAN GREENSPAN. \$2 a barrel is material.

MR. ANGELL. Well, it seems to me that it's material. It also seems to me that it almost works, in terms of our imports, like a reduction in taxes.

MR. SIEGMAN. Yes.

MR. PRELL. Well, it's clearly a plus but I think we're talking about a few tenths at most on output or prices over the course of 1992.

CHAIRMAN GREENSPAN. Given the level that we're at, a few tenths is not insignificant. Any further questions, discussion, or items to be brought to the table by anybody? If not, let me close by thanking you all. I thought this was a most useful meeting. We look forward to seeing you at the next meeting on March 31st.

END OF SESSION