

Meeting of the Federal Open Market Committee

July 7, 1987

Minutes of Actions

A meeting of the Federal Open Market Committee was held in the offices of the Board of Governors of the Federal Reserve System in Washington, D. C., on Tuesday, July 7, 1987, at 10:30 a.m.

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

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

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

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

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

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

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

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Mr. Coyne, Assistant to the Board, Board of Governors
Mr. Promisel, Senior Associate Director, Division of
International Finance, Board of Governors
Mrs. Zickler, 1/ Assistant Director, Division of Research
and Statistics, Board of Governors
Mr. Brady, 1/ Economist, Division of Research and Statistics,
Board of Governors
Ms. Low, Open Market Secretariat Assistant, Office of
Board Members, Board of Governors

Messrs. Hendricks and Stone, First Vice Presidents,
Federal Reserve Banks of Cleveland and Philadelphia,
respectively

Messrs. Balbach, Beebe, Broaddus, J. Davis, T. Davis, and
Ms. Tshinkel, Senior Vice Presidents, Federal Reserve
Banks of St. Louis, San Francisco, Richmond, Cleveland,
Kansas City, and Atlanta, respectively

Mr. R. Davis, Senior Economic Adviser, Federal Reserve
Bank of New York

Messrs. McNeese and Miller, Vice Presidents, Federal
Reserve Banks of Boston and Minneapolis, respectively

Mr. Keleher, Research Officer, Federal Reserve Bank
of Atlanta

Mr. Guentner, Manager, Federal Reserve Bank of New York

By unanimous vote, the minutes of actions taken at the meeting of
the Federal Open Market Committee held on May 19, 1987, were approved.

By unanimous vote, System open market transactions in foreign
currencies during the period May 19, 1987, through July 6, 1987, were
ratified.

By unanimous vote, System open market transactions in government
securities and federal agency obligations during the period May 19, 1987,
through July 6, 1987, were ratified.

1/ Attended portion of meeting related to consideration of the Committee's
longer-run objectives for monetary and debt aggregates.

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By unanimous vote, the following ranges for growth in the broader aggregates and nonfinancial debt in 1987 and the role of M1 were approved by the Committee:

The Committee agreed at this meeting to reaffirm the ranges established in February for growth of 5-1/2 to 8-1/2 percent for both M2 and M3, measured from the fourth quarter of 1986 to the fourth quarter of 1987. The Committee agreed that growth in these aggregates around the lower ends of their ranges may be appropriate in light of developments with respect to velocity and signs of the potential for some strengthening in underlying inflationary pressures, provided that economic activity is expanding at an acceptable pace. The monitoring range for growth in total domestic nonfinancial debt set in February for the year was left unchanged at 8 to 11 percent.

With respect to M1, the Committee recognized that, based on experience, the behavior of that aggregate must be judged in the light of other evidence relating to economic activity and prices; fluctuations in M1 have become much more sensitive in recent years to changes in interest rates, among other factors. Because of this sensitivity, which has been reflected in a sharp slowing of the decline in M1 velocity over the first half of the year, the Committee again decided not to establish a specific target for growth in M1 over the remainder of 1987 and no tentative range has been set for 1988. The appropriateness of changes in M1 this year will continue to be evaluated in the light of the behavior of its velocity, developments in the economy and financial markets, and the nature of emerging price pressures. The Committee welcomes substantially slower growth of M1 in 1987 than in 1986 in the context of continuing economic expansion and some evidence of greater inflationary pressures. The Committee in reaching operational decisions over the balance of the year will take account of growth in M1 in the light of circumstances then prevailing. The issues involved with establishing a target for M1 will be carefully reappraised at the beginning of 1988.

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With Ms. Seger dissenting, the following tentative ranges for growth in the broader aggregates and nonfinancial debt in 1988 were adopted by the Committee:

For 1988, the Committee agreed on tentative ranges of monetary growth, measured from the fourth quarter of 1987 to the fourth quarter of 1988, of 5 to 8 percent for both M2 and M3. The Committee provisionally set the associated range for growth in total domestic nonfinancial debt at 7-1/2 to 10-1/2 percent.

By unanimous vote (with Ms. Seger dissenting from the decision on the tentative ranges for 1988), the Federal Reserve Bank of New York was authorized and directed, until otherwise directed by the Committee, to execute transactions in the System Account in accordance with the following domestic policy directive:

The information reviewed at this meeting suggests on balance that economic activity expanded at a moderate pace in the second quarter. In May and June, total non-farm payroll employment rose modestly further, with most of the gains continuing to be in the service-producing sectors. The civilian unemployment rate fell to 6.1 percent in June and was down appreciably from its average level in the first quarter. Industrial production increased substantially in May after rising moderately on balance in earlier months of the year. Consumer spending appears to have increased in the second quarter, but housing starts were down somewhat further in May to a level considerably below their first-quarter average. Recent indicators of business capital spending point to some recovery, particularly in equipment outlays, from a depressed level in the first quarter. In April the merchandise trade deficit was smaller than in March and below the monthly average for the first quarter. The rise in consumer and producer prices moderated in May but for the year to date prices have risen more rapidly than in 1986, primarily reflecting sizable increases in prices of energy and non-oil imports. Wage increases have remained relatively moderate in recent months.

M2 increased slightly in May and June while growth of M3 remained moderate. For 1987 through June, expansion of M2 has been below the lower end of the range established by the Committee for the year, and growth of M3 around the lower end of its range. Following a

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surge in April, M1 contracted on balance in May and June. Expansion in total domestic nonfinancial debt has moderated this year.

Most interest rates have declined somewhat on balance since the May 19 meeting of the Committee. In foreign exchange markets, the trade-weighted value of the dollar against the other G-10 currencies has risen on balance since the May meeting.

The Federal Open Market Committee seeks monetary and financial conditions that will foster reasonable price stability over time, promote growth in output on a sustainable basis, and contribute to an improved pattern of international transactions. In furtherance of these objectives the Committee agreed at this meeting to reaffirm the ranges established in February for growth of 5-1/2 to 8-1/2 percent for both M2 and M3, measured from the fourth quarter of 1986 to the fourth quarter of 1987. The Committee agreed that growth in these aggregates around the lower ends of their ranges may be appropriate in light of developments with respect to velocity and signs of the potential for some strengthening in underlying inflationary pressures, provided that economic activity is expanding at an acceptable pace. The monitoring range for growth in total domestic nonfinancial debt set in February for the year was left unchanged at 8 to 11 percent.

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of its velocity, developments in the economy and financial markets, and the nature of emerging price pressures. The Committee welcomes substantially slower growth of M1 in 1987 than in 1986 in the context of continuing economic expansion and some evidence of greater inflationary pressures. The Committee in reaching operational decisions over the balance of the year will take account of growth in M1 in the light of circumstances then prevailing. The issues involved with establishing a target for M1 will be carefully reappraised at the beginning of 1988.

In the implementation of policy for the immediate future, the Committee seeks to maintain the existing degree of pressure on reserve positions. Somewhat greater reserve restraint or somewhat lesser reserve restraint would be acceptable depending on indications of inflationary pressures and on developments in foreign exchange markets, as well as the behavior of the aggregates and the strength of the business expansion. This approach is expected to be consistent with growth in M2 and M3 over the period from June through September at annual rates of around 5 and 7-1/2 percent, respectively. Growth in M1, while picking up from recent levels, is expected to remain well below its pace during 1986. The Chairman may call for Committee consultation if it appears to the Manager for Domestic Operations that reserve conditions during the period before the next meeting are likely to be associated with a federal funds rate persistently outside a range of 4 to 8 percent.

It was agreed that the next meeting of the Committee would be held on August 18, 1987.

The meeting adjourned.

Secretary