

Meeting of the Federal Open Market Committee

August 16, 1988

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, August 16, 1988, at 9:00 a.m.

PRESENT: Mr. Greenspan, Chairman
Mr. Corrigan, Vice Chairman
Mr. Angell
Mr. Black
Mr. Forrestal
Mr. Heller¹
Mr. Hoskins
Mr. Johnson
Mr. LaWare
Mr. Parry
Ms. Seger

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

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

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

Messrs. Beebe, J. Davis, R. Davis, Lindsey,
Siegman, Simpson, and Ms. Tschinkel,
Associate Economists

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

1. Entered the meeting following action to approve minutes for the
June 29-30, 1988, meeting.

Mr. Coyne, Assistant to the Board, Board of Governors
Mr. Ettin, Deputy Director, Division of Research and
Statistics, Board of Governors
Mr. Promisel, Senior Associate Director, Division of
International Finance, Board of Governors
Ms. Zickler, Assistant Director, Division of Research
and Statistics, Board of Governors
Mr. Keleher, Assistant to Governor Johnson, Office of
Board Members, Board of Governors
Mr. Wajid, Assistant to Governor Heller, Office of
Board Members, Board of Governors
Mr. Whitesell, Economist, Division of Monetary Affairs,
Board of Governors
Ms. Low, Open Market Secretariat Assistant, Division of
Monetary Affairs, Board of Governors

Messrs. Balbach, T. Davis, Lang, and Scheld, Senior
Vice Presidents, Federal Reserve Banks of
St. Louis, Kansas City, Philadelphia, and
Chicago, respectively

Ms. Lovett, Messrs. McNeese, Miller, and O'Driscoll,
Vice Presidents, Federal Reserve Banks of
New York, Boston, Minneapolis, and Dallas,
respectively

Mr. Guentner, Manager, Open Market Operations,
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 June 29-30, 1988, were approved.

By unanimous vote, System open market transactions in foreign
currencies during the period June 29, 1988, through August 15, 1988, were
ratified.

By unanimous vote, System open market transactions in government
securities and federal agency obligations during the period June 29, 1988,
through August 15, 1988, were ratified.

With Mr. Hoskins dissenting and Mr. Kelley absent, the Federal
Reserve Bank of New York was authorized and directed, until otherwise
directed by the Committee, to execute transactions in the System Account in
accordance with the following domestic policy directive:

The information reviewed at this meeting suggests that economic activity has continued to expand at a vigorous pace. Total nonfarm payroll employment grew sharply further in June and July. The civilian unemployment rate in July, at 5.4 percent, was slightly below its average level in the second quarter. Industrial production advanced considerably further in July. Growth in retail sales remained moderate last month. Business capital spending has continued to grow rapidly. Some measures of prices indicate a pickup from recent trends and labor costs have risen more rapidly in recent months.

Most interest rates have increased appreciably since the Committee's meeting on June 29-30. On August 9 the Federal Reserve Board approved an increase in the discount rate from 6 to 6-1/2 percent.

The nominal U.S. merchandise trade deficit fell in the second quarter as exports continued to rise and non-oil imports declined. Over the intermeeting period, the trade-weighted foreign exchange value of the dollar appreciated somewhat further in terms of the other G-10 currencies.

Expansion of M2 and to a lesser extent M3 slowed in July but growth of M1 remained relatively strong. From a fourth-quarter base through July, M2 and M3 have grown at rates somewhat above the midpoints of the ranges established by the Committee for 1988. Expansion in total domestic nonfinancial debt for the year thus far appears to be at a pace somewhat below that in 1987.

The Federal Open Market Committee seeks monetary and financial conditions that will foster 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 at its meeting in late June reaffirmed the ranges it had established in February for growth of 4 to 8 percent for both M2 and M3, measured from the fourth quarter of 1987 to the fourth quarter of 1988. The monitoring range for growth in total domestic nonfinancial debt was also maintained at 7 to 11 percent for the year.

For 1989, the Committee agreed on tentative ranges for monetary growth, measured from the fourth quarter of 1988 to the fourth quarter of 1989, of 3 to 7 percent for M2 and 3-1/2 to 7-1/2 percent for M3. The Committee set the associated monitoring range for growth in total domestic nonfinancial debt at 6-1/2 to 10-1/2 percent.

It was understood that all these ranges were provisional and that they would be reviewed in early 1989 in the light of intervening developments.

With respect to M1, the Committee reaffirmed its decision in February not to establish a specific target for 1988 and also decided not to set a tentative range for 1989. The behavior of this aggregate will continue to be evaluated in the light of movements in its velocity, developments in the economy and financial markets, and the nature of emerging price pressures.

In the implementation of policy for the immediate future, the Committee seeks to maintain the existing degree of pressure on reserve positions. Taking account of indications of inflationary pressures, the strength of the business expansion, the behavior of the monetary aggregates, and developments in foreign exchange and domestic financial markets, somewhat greater reserve restraint would, or slightly lesser reserve restraint might, be acceptable in the intermeeting period. The contemplated reserve conditions are expected to be consistent with growth in M2 and M3 over the period from June through September at annual rates of about 3-1/2 and 5-1/2 percent, respectively. The Chairman may call for Committee consultation if it appears to the Manager for Domestic Operations that reserve conditions during the period before the next meeting are likely to be associated with a federal funds rate persistently outside a range of 6 to 10 percent.

It was agreed that the next meeting of the Committee would be held on Tuesday, September 20, 1988.

The meeting adjourned.

Secretary