

Meeting of the Federal Open Market Committee

September 20, 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, September 20, 1988, at 9:00 a.m.

PRESENT: Mr. Greenspan, Chairman  
Mr. Corrigan, Vice Chairman  
Mr. Angell  
Mr. Black  
Mr. Forrestal  
Mr. Heller  
Mr. Hoskins  
Mr. Johnson  
Mr. Kelley  
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. Prell, Economist  
Mr. Truman, Economist

Messrs. Beebe, Broadus, Lindsey, Siegman, Simpson, and Ms. Tschinkel, 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. Ettin, Deputy Director, Division of Research and  
Statistics, Board of Governors  
Mr. Promisel, Senior Associate Director, Division of  
International Finance, Board of Governors  
Mr. Stockton, 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. Gillum, Economist, Open Market Secretariat, Division  
of Monetary Affairs, Board of Governors  
Ms. Low, Open Market Secretariat Assistant, Division of  
Monetary Affairs, Board of Governors

Messrs. Balbach, Davis, Ms. Munnell, Messrs. Rolnick,  
Rosenblum, and Scheld, Senior Vice Presidents,  
Federal Reserve Banks of St. Louis, Kansas City,  
Boston, Minneapolis, Dallas, and Chicago,  
respectively

Messrs. Akhtar, Meyer, and Sniderman, Vice Presidents,  
Federal Reserve Banks of New York, Philadelphia,  
and Cleveland, respectively

Mr. Vangel, Assistant Vice President,  
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 August 16, 1988, were approved.

The report of examination of the System Open Market Account, made  
by the Board's Division of Federal Reserve Bank Operations as of the close  
of business on February 22, 1988, was accepted.

By unanimous vote, System open market transactions in foreign  
currencies during the period August 16, 1988, through September 19, 1988  
were ratified.

By unanimous vote, System open market transactions in government  
securities and federal agency obligations during the period August 16,  
1988, through September 19, 1988, were ratified.

By unanimous vote, 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 the expansion in economic activity may be moderating from the vigorous pace earlier in the year. Total nonfarm payroll employment grew more slowly in July and August, though the increases in the two months were still sizable. The civilian unemployment rate rose to 5.6 percent in August. Industrial production advanced slightly further in August after a sharp increase in July. Retail sales were flat in July and August. Recent indicators of business capital spending suggest some moderation from the especially rapid growth in earlier months of the year. Preliminary data for the nominal U.S. merchandise trade deficit in July showed some further reduction from the improved second-quarter rate. The latest information on prices suggests little if any change from recent trends.

Most interest rates have declined somewhat since the Committee meeting on August 16. Over the inter-meeting period, the trade-weighted foreign exchange value of the dollar in terms of the other G-10 currencies was about unchanged on balance.

Expansion of M2 and M3 moderated further in August. For the year through August, M2 has grown at a rate slightly above, and M3 at a rate more noticeably above, the midpoints of the ranges established by the Committee for 1988. M1 was unchanged in August after registering relatively strong growth in June and July. Expansion of 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 of 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 of 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 of M2 and M3 over the period from August through December at annual rates of about 3 and 5 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, November 1, 1988.

The meeting adjourned.

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Secretary