

Meeting of the Federal Open Market Committee

July 5-6, 1989

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 Wednesday, July 5, 1989, at 3:00 p.m., and continuing on Thursday, July 6, 1989, at 9:00 a.m.

PRESENT: Mr. Greenspan, Chairman  
Mr. Corrigan, Vice Chairman  
Mr. Angell  
Mr. Guffey  
Mr. Johnson  
Mr. Keehn  
Mr. Kelley  
Mr. LaWare  
Mr. Melzer  
Ms. Seger  
Mr. Syron

Messrs. Boehne, Boykin, Hoskins, 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, Assistant Secretary  
Mr. Gillum, Deputy Assistant Secretary  
Mr. Mattingly, General Counsel  
Mr. Patrikis, Deputy General Counsel  
Mr. Prell, Economist  
Mr. Truman, Economist

Messrs. Balbach, R. Davis, T. Davis, Lindsey, Promisel, Scheld, Siegman, and Simpson, Associate Economists

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

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1. Attended Thursday session only.

Mr. Coyne, Assistant to the Board, Board of Governors  
Mr. Ettin, Deputy Director, Division of Research and  
Statistics, 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,<sup>2</sup> Office of Board Members, Board of Governors  
Mr. Hooper,<sup>3</sup> Assistant Director, Division of International  
Finance, Board of Governors  
Ms. Danker,<sup>3</sup> Section Chief, Division of Monetary Affairs,  
Board of Governors  
Mr. Mahoney,<sup>3</sup> Senior Economist, Division of Monetary Affairs,  
Board of Governors  
Mr. Teplin,<sup>3</sup> Economist, Division of Research and Statistics,  
Board of Governors  
Ms. Low, Open Market Secretariat Assistant, Division of  
Monetary Affairs, Board of Governors

Messrs. Beebe, Broaddus, J. Davis, Lang, and Rosenblum,  
Senior Vice Presidents, Federal Reserve Banks of San  
Francisco, Richmond, Cleveland, Philadelphia, and Dallas,  
respectively

Ms. Lovett and Mr. McNees, Vice Presidents, Federal Reserve  
Banks of New York and Boston, respectively

Mr. Vangel, Assistant Vice President, Federal Reserve Bank  
of New York

Mr. Weber, Senior Research Officer, Federal Reserve Bank  
of Minneapolis

Ms. Rosenbaum, Research Officer, Federal Reserve Bank  
of Atlanta

By unanimous vote, the minutes of actions taken at the meeting of  
the Federal Open Market Committee held on May 16, 1989, were approved.

By unanimous vote, System open market transactions in foreign  
currencies during the period May 16, 1989, through July 5, 1989, were  
ratified.

By unanimous vote, System open market transactions in government  
securities and federal agency obligations during the period May 16, 1989,  
through July 5, 1989, were ratified.

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2. Attended Thursday session only.

3. Attended portion of the meeting relating to the Committee's  
discussion of the economic outlook and its longer-run objectives  
for monetary and debt aggregates.

By unanimous vote, paragraph 1(a) of the Authorization for Domestic Open Market Operations was amended to raise from \$6 billion to \$8 billion the dollar limit on intermeeting changes in System Account holdings of U.S. Government and federal agency securities for the intermeeting period ending August 22, 1989.<sup>4</sup>

Secretary's Note: The following actions were taken at the Thursday session.

By unanimous vote, the following ranges for growth in the broader aggregates and nonfinancial debt for 1989 were approved by the Committee:

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability, promote growth in output on a sustainable basis, and contribute to an improved pattern of international transactions. In furtherance of these objectives, the Committee reaffirmed at this meeting the ranges it had established in February for growth of M2 and M3 of 3 to 7 percent and 3-1/2 to 7-1/2 percent, respectively, measured from the fourth quarter of 1988 to the fourth quarter of 1989. The monitoring range for growth of total domestic non-financial debt also was maintained at 6-1/2 to 10-1/2 percent for the year.

With Mr. Keehn dissenting, the following longer-run policy for 1990 was approved by the Committee:

For 1990, on a tentative basis, the Committee agreed to use the same ranges as in 1989 for growth in each of the monetary aggregates and debt, measured from the fourth quarter of 1989 to the fourth quarter of 1990. The behavior of the monetary aggregates will continue to be evaluated in the light of movements in their velocities, developments in the economy and financial markets, and progress toward price level stability.

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4. Subsequently, available members of the Committee, or their alternates, unanimously approved a further increase of \$2 billion, to \$10 billion, in the intermeeting limit, effective July 31, 1989. Messrs. Heller and LaWare were absent and did not vote. Messrs. Boykin and Oltman voted as alternates for Messrs. Melzer and Corrigan, respectively.

With Ms. Seger dissenting from the operational paragraph on policy implementation in the period immediately ahead, 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 tends to confirm earlier indications that economic growth has slowed this year. Gains in total nonfarm payroll employment have moderated substantially in recent months, but the civilian unemployment rate, at 5.2 percent in May, remained close to its average level in earlier months of the year. Industrial production increased on balance in April and May at about the reduced rate experienced earlier in the year. Growth in consumer spending has weakened considerably this year. Housing starts declined slightly further in May. Recent indicators of business capital spending suggest a substantial additional increase in the second quarter after a rebound in the first quarter. The nominal U.S. merchandise trade deficit narrowed in April from a substantially reduced average value in the first quarter. Broad measures of prices have risen more rapidly this year than in 1988, reflecting sharp increases in energy and food prices.

Interest rates have fallen since the Committee meeting on May 16, with the largest declines generally occurring in long-term markets. In foreign exchange markets, the trade-weighted value of the dollar in terms of the other G-10 currencies rose sharply earlier in the intermeeting period but subsequently more than retraced that rise in often volatile trading.

M2 and M3 declined in May, primarily because of sizable reductions in transaction and other liquid balances arising from the clearing of unusually large tax payments; data through mid-June point to a rebound in these measures of money. Thus far this year, expansion of M2 has been at a rate below the Committee's annual range, while growth of M3 has been around the lower bound of the Committee's range.

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability, promote growth in output on a sustainable basis, and contribute to an improved pattern of international transactions. In furtherance of these

objectives, the Committee reaffirmed at this meeting the ranges it had established in February for growth of M2 and M3 of 3 to 7 percent and 3-1/2 to 7-1/2 percent, respectively, measured from the fourth quarter of 1988 to the fourth quarter of 1989. The monitoring range for growth of total domestic non-financial debt also was maintained at 6-1/2 to 10-1/2 percent for the year. For 1990, on a tentative basis, the Committee agreed to use the same ranges as in 1989 for growth in each of the monetary aggregates and debt, measured from the fourth quarter of 1989 to the fourth quarter of 1990. The behavior of the monetary aggregates will continue to be evaluated in the light of movements in their velocities, developments in the economy and financial markets, and progress toward price level stability.

In the implementation of policy for the immediate future, the Committee seeks to decrease slightly 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 or somewhat lesser reserve restraint would be acceptable in the inter-meeting period. The contemplated reserve conditions are expected to be consistent with growth of M2 and M3 over the period from June through September at annual rates of about 7 percent. 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 7 to 11 percent.

It was agreed that the next meeting of the Committee would be held on Tuesday, August 22, 1989.

The meeting adjourned.

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Secretary