

Meeting of the Federal Open Market Committee

May 15, 1990

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, May 15, 1990, at 2:00 p.m.

PRESENT: Mr. Greenspan, Chairman
Mr. Corrigan, Vice Chairman
Mr. Angell
Mr. Boehne
Mr. Boykin
Mr. Hoskins
Mr. Johnson
Mr. Kelley
Mr. LaWare
Ms. Seger
Mr. Stern

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

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

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

Messrs. J. Davis, R. Davis, Lang, Lindsey, Promisel, Rolnick, Siegman, Simpson, and Stockton, 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. Keleher, Assistant to Governor Johnson, Office of
Board Members, 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

Messrs. Balbach, Beebe, Broaddus, T. Davis, Ms. Munnell,
Mr. Scheld, and Ms. Tschinkel, Senior Vice Presidents,
Federal Reserve Banks of St. Louis, San Francisco,
Richmond, Kansas City, Boston, Chicago, and Atlanta,
respectively

Mr. Cox, Vice President, Federal Reserve Bank of Dallas

Mr. Guentner, 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 March 27, 1990, were approved.

By unanimous vote, System open market transactions in foreign
currencies during the period March 27, 1990, through May 14, 1990,
were ratified.

By unanimous vote, System open market transactions in government
securities and federal agency obligations during the period March 27, 1990,
through May 14, 1990, were ratified.

With Mr. Hoskins dissenting, 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 is continuing to expand
moderately. Total nonfarm payroll employment
increased more slowly in March and April after sharp
advances earlier in the year; its average growth thus
far this year has been above that in the second half
of 1989, in part because of the hiring of temporary
workers for the census. In April, the civilian
unemployment rate moved up to 5.4 percent. Industrial
production declined in April, reflecting what appears
to be a temporary cutback in the manufacture of motor
vehicles. Consumer spending has been sluggish on
balance in recent months; outlays for goods have been

weak while expenditures for services have remained strong. Business spending for equipment has been rising, but construction activity, both residential and nonresidential, appears to have weakened after a temporary boost early in the year. The nominal U.S. merchandise trade deficit narrowed somewhat in January and February from its average rate in the fourth quarter. Consumer prices continued to rise at a faster pace in March than in 1989; producer prices were down somewhat further in April, reflecting additional unwinding of the earlier surge in prices of food and energy. The latest data on employment costs suggest some deterioration in underlying trends.

Short-term interest rates have declined a little on balance since the Committee meeting on March 27, while rates in long-term debt markets have risen slightly over the period. In foreign exchange markets, the trade-weighted value of the dollar in terms of the other G-10 currencies declined considerably over the intermeeting period.

Growth of M2 slowed in April and that of M3 remained relatively weak. Through April, expansion of M2 and M3 was a little above the midpoint and around the lower end, respectively, of the ranges established by the Committee for 1990.

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 at its meeting in February established ranges for growth of M2 and M3 of 3 to 7 percent and 2-1/2 to 6-1/2 percent respectively, measured from the fourth quarter of 1989 to the fourth quarter of 1990. The monitoring range for growth of total domestic nonfinancial debt was set at 5 to 9 percent for the year. The behavior of the monetary aggregates will continue to be evaluated in the light of progress toward price level stability, movements in their velocities, and developments in the economy and financial markets.

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 progress toward price stability, the strength of the business expansion, the behavior of the monetary aggregates, and developments in foreign exchange and domestic financial markets, slightly greater reserve restraint or slightly lesser reserve

restraint would 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 March through June at annual rates of about 4 and 3 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 Monday-Tuesday July 2-3, 1990.

The meeting adjourned.

Secretary