

Meeting of the Federal Open Market Committee

July 2-3, 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 Monday, July 2, 1990, at 3:10 p.m., and was continued on Tuesday, July 3, 1990, at 9:00 a.m.

PRESENT: Mr. Greenspan, Chairman  
Mr. Corrigan, Vice Chairman  
Mr. Angell  
Mr. Boehne <sup>1</sup>  
Mr. Boykin  
Mr. Hoskins  
Mr. Kelley  
Mr. LaWare  
Mr. Mullins  
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. Patrikis, Deputy General Counsel  
Mr. Prell, Economist  
Mr. Truman, Economist

Messrs. J. Davis, R. Davis, Lang, Lindsey, Promisel, Rolnick, Rosenblum, Siegman, Simpson, and Stockton, Associate Economists

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

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1. Mr. Boehne entered this meeting after the action to approve the minutes for the May meeting.
  2. Attended Tuesday session only.

Mr. Coyne, Assistant to the Board, 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. Danker,<sup>3</sup> Chief, Banking and Money Market Analysis  
Section, Division of Monetary Affairs, Board of  
Governors  
Messrs. Feinman<sup>3</sup> and Krane,<sup>3</sup> Economists, Divisions of  
Monetary Affairs and Research and Statistics,  
respectively, Board of Governors  
Ms. Low, Open Market Secretariat Assistant, Division of  
Monetary Affairs, Board of Governors

Messrs. Beebe, T. Davis, Scheld, and Ms. Tschinkel,  
Senior Vice Presidents, Federal Reserve Banks of  
San Francisco, Kansas City, Chicago, and Atlanta,  
respectively

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

Mr. Thornton, Assistant Vice President, Federal Reserve  
Bank of St. Louis

Ms. Krieger, 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 May 15, 1990, were approved.

By unanimous vote, System open market transactions in government  
securities and federal agency obligations during the period May 15, 1990,  
through July 2, 1990, were ratified.

Secretary's Note: The following actions were taken on  
Tuesday, July 3.

With Ms. Seger dissenting, the following ranges for growth of M2  
and M3 and nonfinancial debt in 1990 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  
range it had established in February for M2 growth of 3  
to 7 percent, measured from the fourth quarter of 1989

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

to the fourth quarter of 1990. The Committee also retained the monitoring range of 5 to 9 percent for the year that it had set for growth of total domestic nonfinancial debt. With regard to M3, the Committee recognized that the ongoing restructuring of thrift depository institutions had depressed its growth relative to spending and total credit more than anticipated. Taking account of the unexpectedly strong M3 velocity, the Committee decided to reduce the 1990 range to 1 to 5 percent.

With Ms. Seger and Mr. LaWare dissenting, the following ranges for growth of M2 and M3 and nonfinancial debt in 1991 were approved by the Committee:

For 1991, the Committee agreed on provisional ranges for monetary growth, measured from the fourth quarter of 1990 to the fourth quarter of 1991, of 2-1/2 to 6-1/2 percent for M2 and 1 to 5 percent for M3. The Committee tentatively set the associated monitoring range for growth of total domestic nonfinancial debt at 4-1/2 to 8-1/2 percent for 1991. 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.

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 economic activity is continuing to expand but at a relatively slow pace. Total nonfarm payroll employment has increased at a much reduced rate in recent months. Nevertheless, the civilian unemployment rate has remained in a narrow range for an extended period and was 5.3 percent in May. Industrial production increased substantially in May, largely reflecting a rebound in the manufacture of motor vehicles. Consumer spending has been sluggish in recent months; outlays for goods have declined while expenditures for services have increased at a slower pace. Business capital spending appears to have slackened a bit in the spring after a pickup earlier in the year. Residential construction has fallen to a relatively low level in recent months. The nominal U.S.

merchandise trade deficit narrowed in April from its average rate in the first quarter. Partly reflecting an unwinding of the earlier jump in prices of food and energy, consumer prices rose at a slower rate in April and May, while producer prices were unchanged over the two months. The latest data on wages suggest no improvement in underlying trends.

Short-term interest rates have changed little on balance since the Committee meeting on May 15, while rates in long-term debt markets have declined somewhat over the intermeeting period. The trade-weighted foreign exchange value of the dollar in terms of the other G-10 currencies was somewhat higher over much of the period but declined late in the period to a level slightly below that prevailing at the time of the May meeting.

M2 and M3 declined in May; available data for June suggest a partial rebound in M2 and little change in M3. Growth of M2 and especially of M3 has been damped by the continuing contraction of deposits of thrift institutions resulting from the restructuring of the thrift industry. Through June, expansion of M2 was estimated to be in the lower portion of its range for 1990 and growth of M3 somewhat below its range for the year. Expansion of total domestic nonfinancial debt appears to have been at the midpoint of its monitoring 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 range it had established in February for M2 growth of 3 to 7 percent, measured from the fourth quarter of 1989 to the fourth quarter of 1990. The Committee also retained the monitoring range of 5 to 9 percent for the year that it had set for growth of total domestic nonfinancial debt. With regard to M3, the Committee recognized that the ongoing restructuring of thrift depository institutions had depressed its growth relative to spending and total credit more than anticipated. Taking account of the unexpectedly strong M3 velocity, the Committee decided to reduce the 1990 range to 1 to 5 percent. For 1991, the Committee agreed on provisional ranges for monetary growth, measured from the fourth quarter of 1990 to the fourth quarter of 1991, of 2-1/2 to 6-1/2 percent for M2 and 1 to 5 percent for M3. The Committee tentatively set the associated monitoring range for

growth of total domestic nonfinancial debt at 4-1/2 to 8-1/2 percent for 1991. 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 might or somewhat 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 June through September at annual rates of about 3 and 1 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 August 21, 1990.

The meeting adjourned.

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Secretary