

Meeting of the Federal Open Market Committee

March 26, 1991

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, March 26, 1991, at 9:00 a.m.

PRESENT: Mr. Greenspan, Chairman  
Mr. Corrigan, Vice Chairman  
Mr. Angell  
Mr. Black  
Mr. Forrestal  
Mr. Keehn  
Mr. Kelley  
Mr. LaWare  
Mr. Mullins  
Mr. Parry

Messrs. Guffey, Hoskins, Melzer, and Syron, Alternate  
Members of the Federal Open Market Committee

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

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

Messrs. Beebe, Broaddus, R. Davis, Promisel,  
Scheld, Siegman, Simpson, Slifman, 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. Ettin, Deputy Director, Division of Research and Statistics, Board of Governors  
Mr. Stockton, Associate Director, Division of Research and Statistics, Board of Governors  
Mr. Madigan, Assistant Director, Division of Monetary Affairs, Board of Governors  
Ms. Low, Open Market Secretariat Assistant, Division of Monetary Affairs, Board of Governors

Messrs. Balbach, J. Davis, T. Davis, Lang, Ms. Munnell, and Mr. Rosenblum, Senior Vice Presidents, Federal Reserve Banks of St. Louis, Cleveland, Kansas City, Philadelphia, Boston, and Dallas, respectively

Ms. White, Vice President, Federal Reserve Bank of New York

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

By unanimous vote, the minutes of actions taken at the meeting of the Federal Open Market Committee held on February 5-6, 1991, were approved.

By unanimous vote, System open market transactions in foreign currencies during the period February 6, 1991, through March 25, 1991, were ratified.

By unanimous vote, System open market transactions in government securities and federal agency obligations during the period February 6, 1991, through March 25, 1991, 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 economic activity weakened further in the opening months of 1991. In February, total nonfarm payroll employment fell sharply further, especially in manufacturing, and the civilian unemployment rate rose to 6.5 percent. Industrial output also declined markedly again in February, with cutbacks evident in a wide range of industries. Advance indicators point to

further weakness in business fixed investment in coming months, notably in nonresidential construction. On the other hand, after declining considerably in previous months, retail sales turned up in February; consumer sentiment appears to have rebounded sharply in recent weeks. Housing starts jumped in February, retracing a sizable decline in January but remaining at a low level. The nominal U.S. merchandise trade deficit increased somewhat in January but was considerably below its average rate in the fourth quarter. Energy prices fell substantially further in January and February, but prices of other consumer goods and services rose more rapidly than in preceding months. Wage increases have moderated in recent months.

Short-term interest rates have declined slightly since the Committee meeting on February 5-6. In longer-term markets, rates on Treasury bonds have risen appreciably, owing at least in part to heightened expectations of a recovery in U.S. economic activity. Risk premiums on corporate debt instruments have declined, and stock prices have moved up considerably on balance. The trade-weighted value of the dollar in terms of the other G-10 currencies increased very sharply over the intermeeting period.

Growth of M2 and M3 strengthened substantially in February, reflecting rapid expansion in liquid retail deposits; partial data suggest appreciable further growth in March.

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability, promote a resumption of sustainable growth in output, 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 2-1/2 to 6-1/2 percent and 1 to 5 percent, respectively, measured from the fourth quarter of 1990 to the fourth quarter of 1991. The monitoring range for growth of total domestic nonfinancial debt was set at 4-1/2 to 8-1/2 percent for the year. With regard to M3, the Committee anticipated that the ongoing restructuring of thrift depository institutions would continue to depress its growth relative to spending and total credit. 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. Depending upon progress toward price stability, trends in economic activity, the behavior of the monetary aggregates, and developments in foreign exchange and domestic financial markets, somewhat greater reserve restraint or somewhat 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 March through June at annual rates of about 5-1/2 and 3-1/2 percent, respectively.

It was agreed that the next meeting of the Committee would be held on Tuesday, May 14, 1991.

The meeting adjourned.

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Secretary