

Meeting of the Federal Open Market Committee  
December 17, 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, December 17, 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. Lindsey  
Mr. Mullins  
Mr. Parry  
Ms. Phillips

Messrs. Hoenig, 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  
Mr. Truman, Economist

Messrs. Beebe, Lindsey, Promisel, Scheld,  
Siegman, Simpson, Slifman, and  
Ms. Tschinkel, Associate Economists

Mr. Sternlight, Manager for Domestic Operations,  
System Open Market Account

Mr. Ettin, Deputy Director, Division of Research  
and Statistics, Board of Governors  
Ms. Low, Open Market Secretariat Assistant,  
Division of Monetary Affairs, Board of  
Governors

Mr. Hendricks, First Vice President, Federal Reserve  
Bank of Cleveland

Messrs. J. Davis, T. Davis, Ms. Greene, Messrs. Lang,  
Rolnick, and Rosenblum, Senior Vice Presidents,  
Federal Reserve Banks of Cleveland, Kansas City,  
New York, Philadelphia, Minneapolis, and Dallas,  
respectively

Messrs. Frydl, Goodfriend, and McNeese, Vice Presidents,  
Federal Reserve Banks of New York, Richmond, and  
Boston, respectively

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

Ms. Meulendyke, Manager, Open Market Operations, Federal  
Reserve Bank of New York

Effective January 6, 1992, William J. McDonough was selected  
by unanimous vote to serve at the pleasure of the Committee in the  
capacity of Manager for Foreign Operations, System Open Market  
Account, on the understanding that his selection was subject to his  
being satisfactory to the Federal Reserve Bank of New York.

Secretary's Note: Advice was subsequently received that the  
selection indicated above was satisfactory to the board of  
directors of the 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 November 5, 1991,  
were approved.

By unanimous vote, System open market transactions in foreign  
currencies during the period November 5, 1991, through December 16,  
1991, were ratified.

By unanimous vote, the Committee approved the renewal for one  
year of the System's reciprocal currency arrangement with the  
Netherlands Bank, including a modification relating to the interest  
rate on drawings initiated by the System.

By unanimous vote, System open market transactions in government securities and federal agency obligations during the period November 5, 1991, through December 16, 1991, were ratified.

With Mr. LaWare 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 continues to portray a sluggish economy and a depressed state of business and consumer confidence. Total nonfarm payroll employment fell sharply in November; however, the average workweek in the private nonfarm sector edged up and the civilian unemployment rate remained at 6.8 percent. Industrial production fell in November, partly reflecting a sizable drop in motor vehicle assemblies. Consumer spending has been soft on balance in recent months. Real outlays for business equipment appear to be rising slowly, and nonresidential construction has continued to decline. Housing starts were appreciably higher on average in October and November than in the third quarter. The nominal U.S. merchandise trade deficit widened slightly further in September; the deficit in the third quarter was substantially larger than in the second quarter. Wage and price increases have continued to trend downward.

Interest rates have declined appreciably since the Committee meeting on November 5. The Board of Governors approved a reduction in the discount rate from 5 to 4-1/2 percent on November 6. In foreign exchange markets, the trade-weighted value of the dollar in terms of the other G-10 currencies declined further over the intermeeting period; the dollar depreciated primarily against the mark and other European currencies.

Expansion in M2 and M3 edged up in November from a slow pace in October; the slightly faster growth reflected a strengthening in the most liquid components of the aggregates. For the year through November, expansion of both M2 and M3 is estimated to have been at the lower ends of the Committee's ranges.

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output. In furtherance of these objectives, the Committee at its meeting in July reaffirmed the ranges it had established in February 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 also was maintained at 4-1/2 to 8-1/2 percent for the year. For 1992, on a tentative basis, the Committee agreed in July to use the same ranges as in 1991 for growth in each of the monetary aggregates and debt, measured from the fourth quarter of 1991 to the fourth quarter of 1992. With regard to M3, the Committee anticipated that the ongoing restructuring of thrift depository institutions would continue to depress the growth of this aggregate 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. In the context of the Committee's long-run objectives for price stability and sustainable economic growth, and giving careful consideration to economic, financial, and monetary developments, 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 November through March at annual rates of about 3 and 1-1/2 percent, respectively.

It was agreed that the next meeting of the Committee would be held on Tuesday-Wednesday, February 4-5, 1992.

The meeting adjourned.

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Secretary