

# FEDERAL RESERVE press release



For Use at 4:30 p.m.

August 24, 1990

The Federal Reserve Board and the Federal Open Market Committee today released the attached record of policy actions taken by the Federal Open Market Committee at its meeting on July 2-3, 1990.

The record for each meeting of the Committee is made available a few days after the next regularly scheduled meeting and subsequently is published in the Federal Reserve Bulletin and the Board's Annual Report. The summary description of economic and financial conditions contained in each record is based solely on the information that was available to the Committee at the time of the meeting.

Attachment

RECORD OF POLICY ACTIONS OF THE  
FEDERAL OPEN MARKET COMMITTEE

Meeting Held on July 2-3, 1990

Domestic policy directive

The information reviewed at this meeting suggested that economic activity was continuing to expand but at a relatively slow pace. Final demands seemed sluggish; while exports had increased further, consumer expenditures had been flat and notable weakness was evident in new housing and nonresidential structures. Overall increases in business inventories appeared to have been moderate, even though the production of goods had picked up. The unemployment rate had remained in a relatively low range despite limited growth in employment. An unwinding in recent months of the earlier jump in the prices of food and energy had damped the rise in producer and consumer prices, but the latest data on wages suggested continued pressure on costs.

Total nonfarm payroll employment rose moderately in May after a small decline in April. Job gains in services were muted over the two months, following strong increases earlier; factory employment continued to ebb; and construction payrolls, after surging during unseasonably mild winter weather, slipped below their level of last fall. Nonfarm payroll employment had grown relatively slowly on average since February, and hiring by the Census Bureau had accounted for all of the increase. Despite the sluggish expansion of employment in recent months, the civilian unemployment rate was 5.3 percent in May and had remained near that level for more than a year.

Industrial production increased substantially in May, largely reflecting a rebound in the manufacture of motor vehicles, and the April

level of activity was revised upward. Production of consumer goods had been relatively sluggish thus far in 1990; however, output of business equipment had firmed as notable gains were recorded in the production of aircraft and information-processing equipment and the output of other business equipment retraced a decline that had occurred in the second half of last year. Recent data on orders for durable goods appeared to be consistent with a further modest rise in manufacturing activity in coming months. Total industrial capacity utilization edged higher in May to nearly its level at the end of 1989; in manufacturing, operating rates had changed little on balance this year as gains in factory output had about matched the expansion of capacity.

Real personal consumption expenditures in April and May were little changed on balance from their level in the first quarter. Expenditures for non-energy services rose more slowly in May, extending the pattern of smaller increases that had been registered on balance this year. Outlays for motor vehicles declined, and spending for goods other than motor vehicles fell for the third straight month. Housing starts were about unchanged in May after a substantial decline in April. The average level of starts in the April-May period was substantially below the first-quarter pace. This recent drop in starts evidently reflected in part a retracing of the earlier surge in residential construction associated with mild winter weather, but higher mortgage rates and some tightening of credit availability to builders also appeared to exert a constraining effect.

Business capital spending appeared to have slackened in recent months. After a pickup in the first quarter that was paced by strong

purchases of office and computing equipment, outlays for nondefense capital goods slowed in April and May, with notable weakness evident in purchases of nonelectrical equipment. Other than for aircraft and computers, new orders for nondefense capital goods had advanced little on balance this year. Following the sizable gain earlier in the year associated with unseasonably mild weather, nonresidential construction activity slowed on average in March and April. Construction of office and other commercial buildings was especially weak in the March-April period, and permits and other indicators of future activity suggested continued softness. At manufacturing and trade establishments, inventories increased somewhat in April after a decline in the first quarter associated with a sharp paring of stocks of automobiles. In the manufacturing and wholesale sectors, inventory-to-shipments ratios were down in April from year-end levels and were around the middle of the ranges prevailing in 1989. Among retailers of goods other than automobiles, recent increases in inventories in conjunction with sluggish consumer spending had led to a reversal of an earlier decline in inventory-sales ratios.

The nominal U.S. merchandise trade deficit narrowed further in April from its reduced average rate for the first quarter. Both imports and exports fell, partly as a result of less trade in automotive products with Canada. The value of oil imports also declined in April as oil prices moved lower and the volume of imports slackened after surging earlier in the year. In April, the value of exports retraced part of its sharp March rise but nonetheless remained at a higher rate than in the first quarter. Measures of economic activity in the major

foreign industrial nations indicated some pickup in growth in the first quarter. Expansion was especially strong in Germany and Japan, but preliminary data for these two countries for the early part of the second quarter suggested a return to more moderate growth. Inflation in the foreign industrial countries remained little changed on average recently.

Producer prices of finished goods were unchanged on balance over April and May as energy prices declined and food prices registered no net change. The rate of increase for goods other than food and energy items was held down by manufacturers' discounts for motor vehicles. Partly because of declines in food and energy prices, consumer prices rose more slowly in April and May; however, the average rate of increase thus far this year remained above the 1989 pace. Over the April-May period, prices of nonfood, non-energy goods were little changed while prices of non-energy services rose less rapidly than earlier in the year. Average hourly earnings rose further in May, with large increases recorded in construction and in overtime in manufacturing. The latest data on total employer costs for compensation indicated that labor costs had increased more rapidly in the twelve months ended in March than in the year-earlier period.

At its meeting on May 15, 1990, the Committee adopted a directive that called for maintaining the existing degree of pressure on reserve positions and that did not include any presumption regarding the likely direction of any intermeeting policy adjustments. In considering the possible need for such adjustments, the Committee agreed that primary weight would continue to be given to developments bearing on the

inflation outlook; accordingly, the directive indicated that slightly more or less pressure on reserve positions would be appropriate during the period ahead depending on 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. Unchanged reserve conditions were expected to be consistent with somewhat slower monetary expansion in the second quarter than had been anticipated at the time of the March meeting, including growth of M2 and M3 at annual rates of about 4 and 3 percent respectively over the period from March through June.

Open market operations in the interval since the May 15 meeting were directed at maintaining unchanged reserve conditions. Adjustment plus seasonal borrowing averaged nearly \$600 million over the the three complete reserve maintenance periods in the intermeeting interval, well above the level registered in the maintenance period that ended just after the May meeting. Much of the sharp rise in borrowing reflected the continued upswing in seasonal borrowing, for which several technical adjustments were made to assumed levels of borrowing, and a funding need at a large bank experiencing a temporary operational problem over a long holiday weekend. The federal funds rate stayed close to 8-1/4 percent over the intermeeting period, and other short-term market rates changed little from their mid-May levels. In long-term debt markets, interest rates declined somewhat on balance as markets responded to evidence of some slowing in the economy and to indications that the chances for substantial reductions in federal budget deficits had improved. These factors also contributed to a decline on balance over the intermeeting

interval in the trade-weighted value of the dollar in terms of the other G-10 currencies.

Both M2 and M3 declined in May; available data suggested a partial rebound in June for M2 and little change in M3. The continuing contraction of deposits at thrift institutions that was resulting from the restructuring of the thrift industry was one of the factors damping the growth of M2 and especially of M3. 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. Growth of total domestic nonfinancial debt appeared to have been at the midpoint of its monitoring range.

The staff projection prepared for this meeting suggested that the economy would expand over the remainder of 1990 at around the rate estimated for the first half of the year and at a slightly faster pace in 1991. Consumer demand was projected to pick up a bit after a weak second quarter, with spending on services expected to continue increasing moderately and outlays for goods to rebound somewhat. Business capital spending was projected to strengthen a little; however, the extent of the bounceback would be constrained by low profit margins associated with relatively slow growth in final demands and reduced levels of capacity utilization along with weakness in nonresidential construction activity arising from the overbuilt condition of many commercial real estate markets around the country and greater caution on the part of lenders. The pace of homebuilding was expected to remain low, damped by slow growth in household incomes and relatively high borrowing costs. Exports of goods and services were projected to

increase substantially but to be accompanied by an acceleration of imports. Moderate restraint on expenditures at all levels of government was assumed. Price inflation was expected to ease somewhat further, following the bulge earlier in the year, but little improvement was anticipated in the underlying trend of inflation.

In the Committee's discussion of the economic situation and outlook, the members generally saw sustained but subdued growth in economic activity as a reasonable expectation for the next several quarters. While business conditions were relatively depressed in some sectors of the economy and parts of the country, business activity was better maintained in other areas, and the economy as a whole gave no current indications of slipping into a recession. Many members commented, however, that the risks appeared to be weighted in the direction of a weaker-than-projected economic performance, especially in the context of changing conditions in credit markets stemming from the financial difficulties of many borrowers and lending institutions. With regard to the outlook for inflation, increases in key price measures had moderated since earlier in the year but there was little evidence of significant change in the trend rate of inflation. Nonetheless, the members generally remained confident that some progress would begin to be made in reducing the underlying rate of inflation during the period ahead, given their expectations of diminished pressures on labor and capital resources. Some also emphasized that the moderate rate of money growth experienced this year, and indeed for an extended period, was indicative of a sustained period of monetary restraint that eventually should produce a lower rate of inflation.

In conformance with the usual practice at meetings when the Committee considers its long-run objectives for growth of the monetary and debt aggregates, the members of the Committee and the Federal Reserve Bank presidents not currently serving as members provided individual projections of growth in real and nominal GNP, the rate of unemployment, and the rate of inflation for 1990 and 1991. These forecasts took account of the Committee's policy of continuing moderate restraint on aggregate demand to constrain inflationary pressures over time. With regard to growth of real GNP, the projections had central tendencies of 1-1/2 to 2 percent for 1990 as a whole and 1-3/4 to 2-1/2 percent for 1991. Forecasts of nominal GNP converged on growth rates of 5-1/2 to 6-1/2 percent for 1990 and 5-1/4 to 6-1/2 percent for 1991. With output expanding below potential, the members anticipated that unemployment would edge up to rates centering around 5-1/2 to 5-3/4 percent in the fourth quarter of 1990 and 5-1/2 to 6 percent in the fourth quarter of 1991. Some easing of pressures on resources would help to damp inflation slightly by 1991. For the consumer price index, the projections had central tendencies of 4-1/2 to 5 percent for 1990 and 3-3/4 to 4-1/2 percent for 1991.

Turning to the prospects for individual sectors of the economy, members commented that, with the possible exception of exports, none appeared likely to provide appreciable impetus to the expansion over the forecast period. Retail sales were weak in many parts of the country; and there were indications of some decline in consumer confidence that seemed to be associated with concerns about weakening real estate values in many parts of the country, reduced employment opportunities, and

persistent reports of financial problems in the economy. In the circumstances, growth in consumer spending was expected to remain relatively sluggish, and while retail sales might well pick up from their recently depressed levels, there was considerable uncertainty regarding the outlook for expenditures for motor vehicles and other consumer durables. Construction activity was being inhibited in many areas by an overhang of excess capacity, notably in commercial real estate but also in housing, and to some extent by the difficulties being experienced by builders in securing financing. Some members expressed concern that building activity might weaken further, and in any event this sector of the economy was believed likely to remain depressed over the forecast horizon. At the same time, the outlook for spending on capital equipment appeared to be somewhat more promising, at least for the near term, judging from the recent pattern of new orders, order backlogs, and reports from industry contacts. In addition, business inventories appeared to be at acceptable levels in most industries and, unlike the experience in earlier business cycles, seemed to be providing an element of stability in a period of adjustments in major industries such as motor vehicles and construction. In the view of many members, the outlook was favorable for further sizable increases in exports that would help to support U. S. production and employment. On balance, however, final demands, including demands from abroad, appeared likely to support only sluggish gains in the goods-producing sectors of the economy, and the service industries were likely to continue to account for much of the anticipated increases in output and employment.

There also was discussion of two special factors that added to the uncertainties bearing on the economic outlook. One related to the unknown timing and extent of a possible reduction in the federal budget deficit that the members hoped would emerge from current discussions between Congressional and Administration officials. Another was the uncertain degree to which lenders had cut back on the availability of credit to creditworthy borrowers. The members continued to hear numerous reports that some businesses were finding it more difficult to obtain credit from banks, notably builders in many areas but also other businesses, including auto dealers, in some parts of the country. On the basis of still fragmentary information, reduced credit availability appeared to have had some, but quite limited, effects on the economy. However, a tightening of credit standards could affect credit flows and spending with a lag and, in addition, there was some concern that the trend to greater restraint in the provision of credit might continue.

With regard to the outlook for prices and wages, the apparent lack of progress in reducing the underlying rate of inflation was a major source of disappointment, but the members continued to anticipate some deceleration in the core rate of inflation during the year ahead. Among the favorable portents were the impact of the softness in house prices on inflation attitudes, the still highly competitive conditions in many markets for goods, the related emphasis on cost-cutting efforts by businesses to compensate for their difficulty or inability to raise prices, and some evidence that wage inflation was no longer worsening. Of particular significance in the view of some members was the relatively restrained monetary growth over the last few years associated

with a policy that had been resisting inflation. This policy was likely to damp inflation over time; moreover, as the public's perceptions of the System's anti-inflationary stance became more firmly held, progress in reducing inflation would tend to accelerate. On the unfavorable side, persisting inflation pressures in many service industries and relatively tight labor markets in some areas remained a source of concern. Moreover, as evidenced by recent increases in the prices of motor vehicles despite weak sales, inflation psychology still was a serious problem in at least some segments of the business community.

In keeping with the requirements of the Full Employment and Balanced Growth Act of 1978 (the Humphrey-Hawkins Act), the Committee at this meeting reviewed the ranges for growth in the monetary and debt aggregates that it had established in February for 1990 and decided on tentative ranges for growth of those aggregates in 1991. The current ranges for the period from the fourth quarter of 1989 to the fourth quarter of 1990 included expansion of 3 to 7 percent for M2 and 2-1/2 to 6-1/2 percent for M3. The monitoring range for growth of total domestic nonfinancial debt had been set at 5 to 9 percent.

In its consideration of the ranges for 1990 and 1991, the Committee took account of the much slower than anticipated expansion of M2 and M3 in the first half of the year and the possible implications for spending and prices. To a large extent, the weakness in monetary growth was associated with a redirection of credit flows away from depository institutions to market channels, and total borrowing by domestic nonfinancial sectors did not moderate appreciably in the first half of 1990 from the pace of 1989. Much of the slower growth in

lending by depository institutions in turn reflected continued shrinkage of the savings and loan industry--to an important extent because of a step-up in government assumption of thrift assets by the Resolution Trust Corporation (RTC) and related transfers of deposits and assets to commercial banks. Expansion of commercial bank credit had remained moderate, reflecting pressures on bank capital positions and bank concerns about the credit quality of borrowers. The members generally anticipated that these special factors would continue to depress the growth of M2 and M3 in the second half of this year and in 1991, though perhaps to a lesser extent next year. These factors were exerting their largest and most direct influence on M3, which includes the bulk of bank and thrift funding sources, but also were affecting M2. Such developments had few if any precedents, and there was substantial uncertainty about their duration and effects on the economy.

Against this background, most of the members were in favor of reaffirming the ranges for M2 and nonfinancial debt for 1990 that the Committee had established at its February meeting, while others indicated a preference for reducing the range for M2. Members who preferred to maintain the current ranges pointed out that the expansion of these aggregates was within their respective ranges in the first half of the year, though toward the lower end of the range in the case of M2. With regard to the latter, it was suggested that the four-percentage-point width of the current range should be enough to encompass likely and desirable outcomes for the year. Several members also commented that, as a general rule, they preferred not to adjust current ranges at midyear, in part to avoid conveying an impression of unwarranted

precision--particularly if the adjustments were relatively small--or of changes being made simply to reflect the actual data. A shortfall from the current ranges should be kept under careful scrutiny to judge whether policy was indeed tighter than intended or desired. If ultimately the Committee elected to tolerate a shortfall from the current ranges, it would accept the useful discipline of explaining the reasons for the deviations in its reports to Congress. Members also noted that the reasons for the shortfall in M2 were not entirely understood, and in the circumstances a downward adjustment to the range might not be appropriate in terms of furthering the Committee's basic objectives for the economy. Those who favored a lower range for M2 observed that, despite the uncertainties that were involved, enough was known to suggest that velocity had increased for technical reasons and that M2 growth lower than previously contemplated would be consistent with the Committee's objectives. One member also indicated that a lower range would coincide with a continuing preference, first expressed in February, for a range that in this view appeared to be more consistent with the Committee's long-run, anti-inflation strategy.

With regard to the 1990 range for M3, a majority of the members favored some reduction, though there were differences with regard to the precise amount. A lower range was deemed to be warranted by the strong indications that M3 growth would fall below its current range for the year to an important extent because of continuing RTC activity in resolving insolvent thrift institutions. While the Committee had anticipated some slowing in M3 growth and had reduced the M3 range in February, the shortfall in the first half of the year was considerably

greater than expected. It represented mostly a restructuring of credit flows rather than an overall reduction in credit availability, though there were signs of some tightening of credit terms. In the circumstances, a lower range would be a technical adjustment and would not be indicative of added restraint in overall credit availability or an intention by the Committee to increase the degree of monetary restraint. A few members expressed reservations about lowering the M3 range, or at least lowering it substantially, in part because a higher range might be needed in later years when special factors were no longer depressing the growth of this aggregate. In this view, to avoid potential misinterpretation of the Committee's policy, the ranges should not be moved up and down to fit special circumstances; instead, they should be reduced steadily but gradually to levels that were consistent with the Committee's long-run objective of sustainable, noninflationary economic growth.

At the conclusion of this discussion, the Committee voted to reaffirm the 1990 ranges that it had established in February for growth of M2 and nonfinancial debt and to lower the 1990 range for M3 by 1-1/2 percentage points to 1 to 5 percent. The Committee approved the following statement for inclusion in its domestic policy directive:

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.

Votes for this action: Messrs. Greenspan, Corrigan, Angell, Boehne, Boykin, Hoskins, Kelley, LaWare, Mullins, and Stern. Vote against this action: Ms. Seger. Absent and not voting: Mr. Johnson.

Ms. Seger dissented because she wanted to reaffirm the existing range for M3 as well as those for M2 and nonfinancial debt. In her view, the shortfall in M3 growth reflected not only technical factors, related in large part to the ongoing restructuring of the savings and loan industry, but an undesirable tightening in the availability of credit. In the circumstances, she was concerned that tolerating M3 growth at a rate near the lower end of the 1 to 5 percent range would be associated with credit conditions that presented too great a risk to the current economic expansion.

Turning to the provisional ranges for 1991, a majority of the members argued for some reduction in the ranges for M2 and nonfinancial debt, and most favored a relatively low range for M3. Reductions in the ranges for M2 and debt would serve to implement the Committee's strategy of gradually lowering the ranges to levels that were consistent with its long-run goals. Additionally, a lower range for M2 seemed appropriate in light of the prospect that the velocity of this aggregate, which like that of M3 had risen to an unexpected extent this year, might rise somewhat further in 1991 in conjunction with the ongoing restructuring of thrift institutions. In the view of many members, a reduction in the range for M2 also was desirable because it would underscore the Committee's commitment to an anti-inflationary policy and by potentially enhancing the credibility of that policy possibly increase its

effectiveness. Several members indicated that while a small reduction in the M2 range was acceptable, a greater reduction might imply tolerance of slower monetary growth than would be consistent with sustained economic expansion. Moreover, the M2 range already had been reduced substantially over the past several years and was getting close to the level that might be desirable over the long run.

Some members preferred not to change the 1991 range for M2 at this meeting. They did not disagree with the strategy of gradually reducing the Committee's ranges over time, but they felt that current uncertainties warranted approaching any reduction with a special degree of caution. There was a possibility of a major shift in fiscal policy, and ongoing changes in financial flows were affecting the relationship of the monetary aggregates to spending. By next February, the Committee was likely to be in a much better position to judge the implications of these factors for the economy and appropriate money growth as well as to have in clearer focus the usual factors bearing on the outlook for economic activity and the financial system.

With regard to the range for M3, the factors that were tending to depress M3 growth relative to income in 1990 could well persist through 1991. In these circumstances, a majority of the members favored a range that was equal to or lower than the revised range of 1 to 5 percent for 1990. Members who expressed a preference for some further reduction believed that a lower range was more likely to encompass the actual outcome and was consistent with the monetary-policy restraint signaled by the reductions favored by most members in the M2 and debt ranges for 1991. Other members preferred not to adopt a range that

would accommodate essentially no growth in M3, even if technical factors suggested a relatively high probability of such an outcome. In this view, such a range would be below the one likely to be warranted for the longer term and would therefore have to be raised at some point, possibly even for 1991 depending on economic, financial, and fiscal policy developments prior to the Committee's review of the ranges early next year.

At the conclusion of this discussion, the Committee approved provisional ranges for 1991 that involved reductions of 1/2 percentage point for M2 and nonfinancial debt from the 1990 ranges and no further change in the M3 range from the reduced 1990 range. The Committee voted to incorporate the following statement regarding the 1991 ranges in its domestic policy directive:

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.

Votes for this action: Messrs. Greenspan, Corrigan, Angell, Boehne, Boykin, Hoskins, Kelley, Mullins, and Stern. Votes against this action: Ms. Seger and Mr. LaWare. Absent and not voting: Mr. Johnson.

Mr. LaWare dissented because he preferred a somewhat lower range for M3 in 1991. He did not view such a range as implying greater monetary restraint next year but as warranted by technical factors, notably the further shrinkage in prospect for the savings and loan

industry, that pointed to a further rise in the velocity of M3 and to little or no growth in this aggregate in 1991. Moreover, he believed that a further reduction in the M3 range for next year would be more consistent with the lower ranges tentatively adopted for M2 and nonfinancial debt.

Ms. Seger dissented because she wanted to retain this year's ranges, at least tentatively, for 1991. She was not opposed to gradual reductions in the ranges over time, and she would be prepared to make adjustments in February if intervening developments warranted. However, she continued to believe that the inevitable uncertainties in assessing the economic outlook over an extended period of time argued for not changing the ranges at midyear but waiting until February. Such uncertainties loomed especially large at this time because of the possibility of a major adjustment in fiscal policy and the critical questions that remained concerning the outlook for credit conditions.

In the Committee's discussion of policy implementation for the weeks ahead, all of the members supported a proposal to maintain unchanged conditions in reserve markets at least initially following this meeting, and a majority favored a directive that could accommodate some slight easing of reserve conditions fairly soon unless incoming indicators suggested appreciably stronger monetary growth and greater inflationary pressures than the members currently expected. The degree of monetary restraint sought by the Committee since late 1989 remained appropriate, but despite a steady policy course, credit conditions appeared to have tightened at least marginally in recent months. The evidence of such tightening, while not conclusive, had become more

persuasive and was a source of increasing concern; the marked slowing in monetary growth in the second quarter in particular suggested the possibility of more restraint than the Committee intended. Nonetheless, in the view of nearly all the members, the persistence of inflation argued for caution and against any adjustment that would have the effect of easing the overall thrust of policy unless incoming information on the monetary aggregates and the economy pointed to a significantly weaker outlook for economic activity.

The members who preferred not to bias the Committee's directive toward a slight reduction in the degree of reserve pressure believed that more evidence would be helpful to assess the performance of the economy and the extent of any inadvertent and inappropriate tightening in overall credit conditions. They emphasized that the persistence of inflationary pressures and the related need to maintain the credibility of the System's anti-inflationary policy warranted particular caution against any premature easing or any policy move that might be interpreted as such. However, a number of these members acknowledged that they too were concerned by the very sluggish monetary growth in recent months, at least to the extent that it could not be explained by technical factors and might therefore be signaling a weaker economy or an inappropriately restrictive monetary policy.

According to a staff analysis prepared for this meeting, growth of M2 was likely to resume over the third quarter, but only to a pace that would keep this aggregate near the lower end of the Committee's range for the year, assuming steady money market conditions and an economic performance in line with the members' expectations. The

expansion of M3 was projected to remain very sluggish as components of this aggregate continued to respond to thrift industry and related developments that had inhibited their growth.

At the conclusion of the Committee's discussion, all of the members indicated that they favored or could accept a directive that called for maintaining the existing degree of pressure on reserve positions for at least a short period after this meeting. Subsequently, some slight easing of reserve conditions could be implemented unless incoming data on the monetary aggregates and the economy evidenced greater strength; because of the minor firming that appeared to have occurred in general credit conditions, such easing in the availability of reserves would in effect serve to maintain the overall degree of monetary restraint that the Committee had sought to implement since late 1989. In keeping with this approach to policy, the directive provided that slightly greater reserve restraint might be acceptable during the intermeeting period or somewhat lesser restraint would be acceptable depending on 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. The reserve conditions contemplated at this meeting were expected to be consistent with growth of M2 and M3 at annual rates of 3 and 1 percent respectively over the three-month period from June to September. The intermeeting range for the federal fund rate, which provides one mechanism for initiating consultation of the Committee when its boundaries are persistently exceeded, was left unchanged at 6 to 10 percent.

At the conclusion of the meeting, the following domestic policy directive was issued to the Federal Reserve Bank of New York:

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.

Votes for the paragraph on short-run policy implementation: Messrs. Greenspan, Corrigan, Angell, Boehne, Boykin, Hoskins, Kelley, LaWare, Mullins, Ms. Seger and Mr. Stern. Votes against this action: None. Absent and not voting: Mr. Johnson.